

FINANCIAL TIMES

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P&G's John Pepper
'I want to see people
enjoying themselves'
Interview, Page 24



Serbs in Kosovo
Pessimistic about
prospects for co-existence
Page 2



Microsoft
Just doing what every
company would like to do
Peter Martin, Page 13

Polish privatisation
Government wants
top prices for banks
Page 26

WORLD NEWS

Communists move to impeach Yeltsin as miners block Siberian rail route

Coal miners angry after months without pay cut Russia in half yesterday by blocking the Trans-Siberian Railway, triggering a state of emergency in parts of Siberia and political uproar in Moscow where President Boris Yeltsin faced a new call for his impeachment. Page 2

Italian minister offers to resign Italian justice minister Giovanni Maria Flick, under fire after a jailed Mafia boss abandoned, offered his resignation to prime minister Romano Prodi but was turned down. Page 2

Euro hologram missing French and German investigators are searching for a French-made hologram design, intended to deter counterfeiting of the European Union's single currency, that disappeared last week between Paris and Munich. Page 14

More Iran-EU talks scheduled The European Union and Iran plan to hold substantive talks after a positive meeting between senior officials in Brussels, the first stage in moves to resume dialogue. Page 1

Rome museum raided Masked gunmen broke into a Rome museum and stole two priceless paintings by Van Gogh and one by Cézanne. Page 3

Turkish troops mass on border Thousands of Turkish troops backed by armoured vehicles and heavy artillery have been building up near the border with Iraq. Islamic fightback, Page 3

Foreign students wanted London's elite universities launched a marketing venture to boost the city's share of the market for foreign students. Page 10

Colombian unit to be disbanded The Colombian Army is to disband its XX Brigade, a military intelligence division that has been criticised for its alleged role in human rights violations. Page 6

Ethiopia holds 21 journalists International press freedom watchdog Reporters sans Frontières said that Ethiopia was holding 21 journalists in its prisons - more than any other country. Page 1

Report urges Finnish drink tax cut A government-commissioned study recommends a cut in Finnish alcohol taxes which would see prices fall 15 per cent by 2004. Page 3

UK beef exports look set to resume Exports of beef from the UK seem certain to resume on June 1, following moves in Brussels this week to end the two-year ban on overseas sales. Page 9

Swiss protest on wartime assets The Swiss government said it would protest to the US over New Jersey state legislation to punish Swiss banks over second world war assets. Page 2

UN inspectors view Iraqi sites Iraq said a special team of UN biological inspectors made surprise field visits to 15 sites outside Baghdad. Page 8

Cities vie to host G8 Yokohama and Hiroshima plan to join the bid to host the summit of the Group of Eight major powers in Japan in 2000. Page 14

Giltch leaves millions out of touch Millions of pagers stopped working throughout the US when the Galtch 4 communications satellite suddenly lost track of Earth. Page 37

BUSINESS NEWS

Van Miert warns regulators as EU clears rescue plan for Crédit Lyonnais

Karel Van Miert, the European Union's competition commissioner, warned banking regulators to be more vigilant as the Commission cleared a rescue plan for French state-owned bank Crédit Lyonnais. Page 15; Lex, Page 14; End of uncertainty, Page 20

ABN Amro, the Dutch bank, dismissed as "outright nonsense" a newspaper report it was in advanced talks to buy Bear Stearns, the US investment bank. Bear Stearns also denied it was talking with anyone. Page 18

Norway's finance ministry has deferred a planned \$666m global offering of shares in Den norske Bank, the country's largest commercial lender, in the wake of chief executive Finn Hvidsten's dismal. Page 20

Canal Plus, the French media group, is interested in acquiring the film division of PolyGram, the Dutch entertainment company for which Canadian drinks group Seagram has mounted a \$10bn-plus bid. Page 18

Mannesmann Arbor, one of Germany's new telecoms groups, lifted turnover 67 per cent to DM380m (\$213m) in the three months after full liberalisation of the market on January 1. Page 16

Nissan, Japan's second-biggest automotive group, announced a restructuring after revealing it would post its fifth loss in six years. Page 15; Lex, Page 14; Analysis, Page 22

Arthur Andersen, the accountancy firm, is talking to the Brazil firm of Coopers & Lybrand in an attempt to woo it away from the planned \$13bn global merger with Price Waterhouse. Page 15

IFL, the Agnelli family's industrial holding, announced a £647m (\$870m) capital increase to help fund the development of investments in banking, leisure and retailing. Page 18

KLM, the Dutch airline, had its best performance in a year to March, emerging from a Fl 58m (\$28.8m) loss in 1996-97 to achieve net profits of Fl 608m. Page 20

IFC, the private sector arm of the World Bank, has agreed to take a stake in Macedonia's state-owned telecommunications utility Make-telekomunikacil. Page 3

Gdynia shipyard in Poland has won an order to build six liquid gas carriers in a deal worth almost \$400m signed with Norwegian shipowner Bergesen. Page 7

ENI, the Italian oil and gas group, reported a 3 per cent increase in operating income to L3.901bn (\$2.2bn) in the first quarter in spite of lower sales. Page 18

Japan's economic slump has taken its toll on the country's trading companies, which reported big downturns in annual results. Page 15; Exports, down, Page 8

Bank of New York withdrew its \$24bn offer for Mellon Bank of Pittsburgh, bringing to an end the largest unsolicited bid for a US bank. Page 15; Lex, Page 14

World Equity Markets

The latest trends and data from more than 50 national markets at a glance. Page 37

WORLD MARKETS

STOCK MARKET INDICES

	Gold	London	Paris	Tokyo	Yield
Dow Jones Ind Av	9076.32	(+21.67)	1829.87	(-16.0)	
NASDAQ Composite	1829.87	(+16.0)			
FTSE 100	1047.82	(+67.08)	1519.98	(+122.08)	
DAI	597.4	(+2.56)	587.4	(+0.56)	
FTSE 100	15,822.5	(+101.38)			
US Long-term rates	5.42%				
5-yr Treasury Bills - Yld	5.13%				
Long Bond	10.04				
Yield	5.88%				
OTHER RATES	7.4%				
US 10 yr BOND	100.87	(100.54)	103.98	(104.02)	
German 10 yr Bond	107.52	(107.57)			
Japan 10 yr G3	111.55	(111.55)			
Month Sea Oil (Argus)	\$14.575	(14.69)			
Best Bid					
	2,8882	(2,8882)			

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Market	Price	Change	Open	High	Low
Gold	\$2934	(288.5)			
London	\$2935	300.08			
Paris	\$2935	300.08			
Tokyo	\$2935	300.08			
Yield	5.88%				

THURSDAY MAY 21 1998

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Brussels agrees tax proposal

By Lionel Barber in Brussels

The push for greater tax harmonisation across the European Union accelerated yesterday when the European Commission unanimously agreed a long-awaited proposal for a minimum savings tax even though they disagreed on the details.

Mario Monti, the single market commissioner, expressed confidence about an early agreement among the 15 EU member states on the code showed member states agreed on the principles of the minimum savings tax even though they disagreed on the details.

The Commission's proposal recommends a minimum 20 per cent withholding tax. This is to be collected on behalf of national governments by financial institutions holding the savings or securities. These governments will hold the tax unless investors prove they have already paid it on the savings in another jurisdiction.

Alternatively, countries would provide information to other European tax authorities about interest payments to EU citizens resident in their jurisdiction. Banks handling the interest payment would supply the information.

The draft directive would apply to EU resident individuals only, but investment bankers have warned that it could damage European capital markets, notably the eurobond market.

Individual investors still account for 20 per cent of bond holdings, according to the International Primary Market Association, which represents international securities underwriters and distributors.

'Innovator's Dilemma' wins book of the year

By Peter Martin

A book about corporate innovation is the best business book of the year, according to the Financial Times/Booz-Allen & Hamilton Global Business Book Awards, announced yesterday in London.

The *Innovator's Dilemma* by Clayton Christensen, published by Harvard Business School Press, wins the prize for the best business book published in 1997. It explores the ways in which successful companies sometimes miss out on "disruptive" or breakthrough technologies.

The prize was awarded by an international panel chaired by Don Perkins, former chairman and chief executive of the Jewel Companies, and including Richard Lambert, editor of the Financial Times. The *Innovator's Dilemma* receives \$10,000, plus another \$5,000 for winning the category of Best How-To Book.

Best Book about Business Strategy and Leadership goes to *Machtwchsel im Management*, by Uwe Reinhard Müller, published by Rudolf Haufe Verlag. The book argues that too many German companies are run by inflexible, elderly managers.

Inside Intel by Tim Jackson (Truman Talley Books/Dutton, HarperCollins Business) wins Best Current Business Narrative for its exploration of Intel's history and the character of its charismatic chief executive Andy Grove. Best Industry Analysis/Business Context goes to *Inside the Kaisha* by Philip Anderson and Noboru Yoshimura (Harvard Business School Press), which offers a glimpse into big Japanese corporations. Each category winner receives a prize of \$5,000.

Detailed reviews of the prize-winners will appear in the FT on June 9.



INDONESIAN ARMY ALLOWS STUDENT PROTESTS BUT CONTINUES TO SUPPORT PRESIDENT

Suharto feels power of the people

By John Riddington in Jakarta

"Reformasi, Reformasi" sang the students yesterday as they marched through an alley of supporters towards Indonesia's People's Consultative Assembly. "Suharto, Tutut and Bampong - they rob our nation," they chorused in contempt for the Indonesian president and his kin.

It was people's power at parliament yesterday, the focus of Jakarta's protests against the regime of President Suharto. But everywhere else the armed forces clamped a ring of steel across the city, stifling demonstrations.

As Mr Suharto tries to maintain his 32-year hold on power, the occupation of parliament is a humbling blow. "Step down Suharto" read one banner, decrying the corruption of his regime.

While students were penned in by soldiers, it was the Indonesian leader who was really under siege.

On Tuesday, Mr Suharto agreed to step down after holding new general elections and steering through reforms. Those concessions - and fears of civil unrest - have taken the momentum out of the opposition campaign, and may have bought Mr Suharto more time.

But students were unimpressed. Yesterday's crowd demanded Mr Suharto step down immediately.

The students are confident their cause strikes a chord beyond the campus. Outside the parliamentary fence, workers and business people gathered to express their support. As police in trucks passed through the gates, they gave the thumbs-up.

to the crowd. At parliament at least, the army kept a low profile. "They are with us in their hearts," claimed one of the student leaders.

The military is still with Mr Suharto when it counts.

The army rejected a parliamentary call for his resignation and spread its hardware across the city at dawn.

At the back of many minds were events in China nine years

ago, when the army crushed a students' revolt in Beijing's Tiananmen Square. The military is ready for a Tiananmen situation, said Amien Rais, the Moslem opposition leader, explaining his decision to call off a mass protest yesterday. "I don't want to see

more bloodshed, more unnecessary victims," he said, referring to the 500 deaths in rioting in the capital over the past week.

The students appeared calm about the risks of conflict. "I am not afraid, I am sure the thing we do is right," said Harmadi, an engineering student.

For him, the tanks and troops showed the regime's weakness, not its strength.

Reports, Page 8

End of a dynasty, Page 12

Editorial comment, Page 13

Nissan shake-up after \$107m loss

By Paul Abrahams in Tokyo

Nissan, Japan's second biggest automotive group, yesterday announced a sweeping restructuring after revealing it would post its fifth loss in six years. The grim results were in stark contrast to the record results announced yesterday by Toyota and Honda, Nissan's rivals.

Yoshikazu Hayashi, Nissan's president, yesterday gave details of staff and production cuts and said the heavily indebted company would make net losses of Y14bn (\$107.6m) in the last financial year compared with earnings of Y77bn in 1996. The main cause was a disastrous performance in its US operations which lost Y80bn compared with profits of Y20bn in the previous period. The announcement came after the market closed, and the shares ended Y5 at Y462.

"It's incredible that Nissan could be losing that much money in the US, which is enjoying the most buoyant demand growth ever," said Noriaki Hirakata, motor analyst at Morgan Stanley.

Nissan would change its policy from being driven by sales and market share to being profit-oriented, said Mr Hayashi. Tadahiro Shirai, executive vice

WORLD NEWS

EUROPE

Yeltsin under pressure as miners' pay protests grow

By Carlotta Gall in Moscow

Boris Yeltsin, the Russian president, yesterday faced a new call for his impeachment by the Communists as his government fought to contain spreading unrest among thousands of unpaid miners and workers across the country.

Angry miners blocking the Trans-Siberian railway cut the last transport routes to Siberia yesterday, causing the governor of Kemerovo region to declare a state of emergency.

The two-week-old protests have gained momentum, spreading to southern and far eastern Russia, where doctors, teachers and pensioners have joined the demonstrations.

Waigel sees more tax stability

By Peter Norman in Bonn

Theo Waigel, Bonn finance minister, was yesterday given the first tentative evidence of more stability in German tax revenues, after years of presiding over deteriorating public finances.

The finance ministry's special commission of tax experts forecast that tax income accruing to Germany's federal, state and local authorities and the European Union would increase this year by 2.9 per cent to DM820.5bn (\$460.5bn), reversing last year's decline of 0.4 per cent to DM757.2bn.

The revenues forecast for this year were also higher than the DM814.2bn predicted by the same group last November. Mr Waigel could draw only limited comfort from this news because the projected rise reflected changes to tax legislation masking a DM3bn shortfall in income, as calculated under previous rules.

The experts' forecasts for 1999-2002 were similarly mixed. Though the commission predicted revenues would rise from DM837.8bn next year to DM860.7bn in 2002, it scaled down its previous estimates for the three years to 2001 by a total DM9.5bn.

Mr Waigel said the projected medium-term deterioration came as no surprise. Unlike the estimates for this year, the figures for 1999-2001 were revised down against an estimate of May last year.

The government was conscious of the medium-term trend last autumn, when the experts met to revise their short-term forecast. He had taken developments into account in the 1998 budget and would do so in drafting next year's budget and the financial plan to 2002.

The tax experts assumed the economy would grow in nominal terms by 4 per cent this year, 4.5 per cent in 1999 and by 4.4 per cent between 2000 and 2002.

Mr Waigel said yesterday's tax estimates showed revenues were responding to the recovery of Germany's economy and employment. But he warned that the structural weakness of Germany's tax system, with its high tax rates and many tax breaks, would persist as long as comprehensive tax reform plans were in abeyance.

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They represent a serious challenge for the prime minister. Sergei Kiriyenko, who is still struggling with the consequences of a stock market crash earlier this week, Mr Yeltsin appointed him less than a month ago, telling him as a priority to solve the wages arrears which run into billions of dollars.

Mr Yeltsin himself has had to leave from the impeachment proceedings begun by the Communist party in the Duma. Previous efforts to impeach him have failed, as did recent attempts to veto Mr Yeltsin's choice of prime minister.

Nevertheless the Communist leader, Gennady Zyuganov, increased the pressure, calling on all parties to sign his proposal to remove Mr

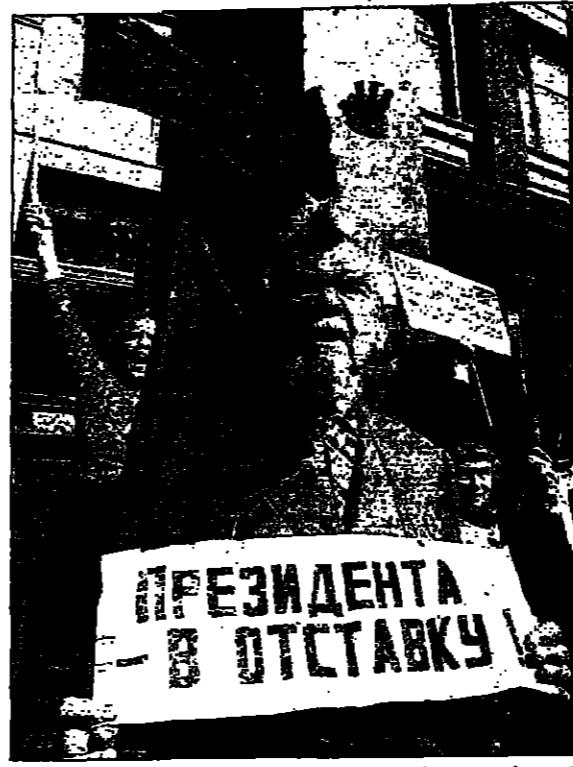
Yeltsin from the presidency. Mr Kiriyenko yesterday ordered the deputy prime ministers, Boris Nemtsov and Oleg Svyatov, to cancel foreign trips and go to coal-mining regions to meet strikers. In Moscow the prime minister himself met the head of the independent miners' union, who has warned the miners are close to exploding. They agreed to set up a crisis group.

The government is not directly responsible for the payment of miners' wages since most of the mines have been privatised. But the mines are owed large debts by government-run enterprises and electricity companies and the miners, some of whom have not been paid for six months, hold the govern-

ment responsible. Mr Kiriyenko will be hard pressed to find the cash, especially after the battering the economy has taken in the recent days. The government lost billions of dollars when share prices plummeted on Monday and the central bank had to intervene to support the rouble.

Officials said the transport blockages, which have left several hundred passenger and freight trains stranded in Siberia, have so far cost the railways alone over Rbs100m (\$16.2m).

The government has promised to solve the issue within a matter of days but analysts warn that the miners' protest is a symptom of a much deeper problem countrywide of inter-enterprise debt.



Communist supporters call for Yeltsin's resignation yesterday AP

ITALIAN CRIME GOVERNMENT UNDER FIRE

Minister offers to quit over escapes

By James Blitz in Rome

Italy's centre-left government was badly shaken last night by a row over the escape from custody of two notorious criminals, triggering a resignation offer from the minister of justice.

Giovanni Maria Flick handed a three-page letter to Romano Prodi, the prime minister, saying he wished to "assume responsibility" for the recent escape of Pasquale Cuntrera, one of the Mafia's leading bosses, and of Licio Gelli, the former grand master of the out-

lawed P-3 masonic lodge. Mr Prodi refused to accept Mr Flick's offer of resignation. But anger over the escapes of the two criminals - both of whom were within days of final sentencing - has been intense in Italy over the past two days.

The escapes are widely seen to have damaged the credibility of a justice system whose complicated procedures allowed both men to be temporarily released pending final appeals.

The Reconstructed Com-

munist party, on whom Mr Prodi relies for a parlia-

mentary majority, warned that the escape of the two men had "increased the scope of a government crisis". Deputies from Silvio Berlusconi's Forza Italia party said they might bring a confidence motion in Mr Flick to the Italian parliament.

If Mr Flick were somehow forced out, it would be only the second time that a senior minister has quit the Prodi administration since it came to power in May 1996. Mr Prodi's aides have long feared that the departure of any minister might unsettle the delicate balance of forces

in the Olive Tree coalition. The escape of Mr Cuntrera, deemed to be one of Europe's most powerful drug barons, only came to light on Tuesday night, within days of his expected sentencing to 21 years imprisonment for drug trafficking.

The Mafia boss, who is confined to a wheelchair, was temporarily released from prison on May 5 on a legal technicality and disappeared soon afterwards.

Italy allows defendants to mount two appeals following initial conviction. However, a court ruled that the delay

FREIGHT ROW CUSTOMS CHECKS CAUSE TRUCK DELAYS ON BORDER

New rules hit Finnish-Russian trade

By Tim Burt in Stockholm

Freight transport links between Russia and Finland - accounting for 40 per cent of all international road transport into Russia - have been seriously disrupted this week by a cross-border dispute over road haulage rights.

Movement of goods across the Finnish border - accounting for 40 per cent of all international road transport into Russia - has been delayed or halted altogether following a Russian decision to impose new restrictions on transporting four categories

of imports: cars, electronic products, furniture and chocolate.

Under Russian customs proposals unveiled this week, hauliers carrying such products across the Finnish border will be required to travel in convoy to their final destinations - mainly Moscow and St Petersburg.

By using convoys, Russian customs officials hope to prevent products ending up on the black market and curtail fraud among importers. The Finnish government and international haulage groups accuse Russia of flouting international transport

agreements and seeking punitive fees for operating the convoys.

According to Finnish estimates, the Russian authorities are demanding \$1 to \$4 per km for each truck travelling by convoy, lifting haulage costs between Finland and Moscow by up to \$4,000.

Mattei Aura, Finland's transport minister, yesterday said the Russian action breached the TIR agreement, the 26-nation code which allows trucks marked with the TIR symbol to avoid customs checks until they reach their final destinations.

"According to TIR rules,

such convoys are forbidden," said Mr Aura. "We have retaliated, and Finland will no longer allow Russian lorries carrying these four categories of products on Finnish roads."

Finnish border officials have also been ordered to carry out more thorough inspections of Russian lorries. International hauliers say Russian customs officers

were searching all trucks to see whether they are carrying any product which would require a convoy.

The tit-for-tat action has started to cause chaos at border crossings used by up

to 1,000 trucks a day, with lengthy delays as highways are transformed into haulage parking lots.

Of the traffic crossing the Russian-Finnish border, a third is expected to fall into categories affected by the dispute but transport of other items will inevitably be affected by border delays.

The Finnish road haulage association, representing 9,000 transport companies, has warned that east-west deliveries of manufacturing components, perishable items and consumer products would soon be hampered by the stand-off.

Kosovo Serbs flee war in their ancestral home

Hopes of co-existence between Serbs and Albanians are fading in the troubled province, writes Guy Dinmore

T omislav Novovic has already sent his sister and mother away from Serbia's troubled province of Kosovo and is now moving his collection of several thousand books.

He is not alone among Serbs who fear that whatever the outcome of the spreading conflict with the ethnic Albanian majority there is little chance of co-existence in the future.

"I'm not too optimistic," Mr Novovic comments on the US-led peace effort which began last week with talks in Belgrade between the Yugoslav president, Slobodan Milosevic, who rose to power a decade ago by stirring up Serbian nationalism and stripping Kosovo of its broad autonomy.

With its ancient Orthodox monasteries and the burial grounds tombs of saints, Kosovo is embedded in the legends of the first Serbian kingdoms, despite five centuries of Ottoman rule that only ended in 1912. But in

and with a twinkle in her eye says she would happily choose another - but in the present atmosphere that is impossible.

"It's all the fault of the politicians. If they left us alone, we could live together," she says, launching into an attack on Mr Milosevic who rose to power a decade ago by stirring up Serbian nationalism and stripping Kosovo of its broad autonomy.

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Kosovo through war just as he did with the mainly Serb-populated Kratina region in Croatia in 1995.

Imams preaching in mosques have started to speak of war, but stop short of calling on the mostly Muslim Albanians to join a

Army (KLA) in February and March. Their fears are real - diplomats have gathered evidence of summary executions that will be presented to the UN war crimes tribunal in The Hague.

"How can we live with the Serbs after all this?" asked

one clan leader. And with that he asked his son to start up a generator so that his foreign guests could view a home-video taken just after a police attack on the village of Rakinica on May 1.

Farmhouses had been raked with bullets and shrapnel, rooms trashed. The body of a half-naked man was shown lying in a wood with half his head blown away.

"Please tell NATO and Europe - don't leave us in the lurch," the old man pleaded. "We are ready to die for our homes."

Outside Pristina, in the rough hills of the Drenica region, armed Albanian villagers swear they will not allow a repeat of the slaughter carried out by police in raids on strongholds of the separatist Kosovo Liberation

"holy war".

Although Kosovo is still a broadly secular society and the attendance at Friday prayers is relatively small, the numbers are growing. More young men can be seen growing beards as recommended by Islamic tradition.

Both communities agree that war has begun. More than 150 people have died this year and many fear it is just a matter of time before the violence spreads from mainly Albanian-populated rural areas.

Bishop Artemije, head of the Orthodox church in Kosovo, condemns what he calls the "destructive policies of the Belgrade regime". In a recent interview with Dnevni Telegraf, a Serbian daily, the bishop warned that Mr Milosevic would lose

one clan leader. And with that he asked his son to start up a generator so that his foreign guests could view a home-video taken just after a police attack on the village of Rakinica on May 1.

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Over a nearby hill villagers armed with a selection of weapons, from old hunting rifles to Kalashnikovs, have dug trenches and built sandbagged bunkers. Outsiders

are told firmly but politely to turn back.

Just three months ago the KLA, organised by Marxist-turned-nationalist radicals believed to be based in Switzerland, could muster just a few hundred fighters concentrated in several villages renowned for their resistance to Ottoman and later Serbian rule. Now, diplomats believe, several thousand villagers have weapons smuggled over from the Cursed Mountains of nearby Albania.

While a great majority of Albanians aspire to independence, not all are sympathetic to the KLA. One prominent intellectual, who failed to give his name, criticised Mr Rugova for failing to speak out against the KLA. The figurehead "president" of the self-declared Republic of Kosovo, Mr Rugova insists he will not abandon his policy of non-violent resistance to Belgrade but at the same time refuses to acknowledge the obvious and recognise the existence of the rebel group.

Fethi Agani, a senior adviser to Mr Rugova, is open about their dilemma: "The politicians don't know what to say to the people - whether to take up arms or not. If they do, it is a pretext for the military to intervene. If they don't, then how can they defend themselves from massacres like Drenica?"

Analysts fear the ultra-nationalist pressures on both Mr Milosevic and Mr Rugova will lead Kosovo to a full-blown war that will destabilise Albania as well as Macedonia with its large ethnic Albanian minority.

For many the choice is clear. Mr Novovic, the Serbian doctor and school director, has removed most of his books but is staying on as long as his pupils remain.

"We have two options to go to war, or to go away," he says. "I'll go away."



There is a lot of weapons and a lot of hatred. We will lose, all of us. This is my town. I had good Albanian friends. Now we only say 'Hello, how are you'

recent decades religious and historical attachments have failed to stem a steady exodus of Serbs from this poor corner of Yugoslavia.

Statistics are disputed on both sides, but according to the 1991 census Serbs then made up around 13 per cent of the population. In 1991 they had dwindled to under 10 per cent. A law prevents Serbs from selling their property to ethnic Albanians but ways can always be found.

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EUROPE

EU MONEY BRITAIN TO SEEK WAYS AROUND ATHENS' OPPOSITION TO BRUSSELS FINANCIAL AID FOR RIVAL

Greece pressed on Turkey veto

By David Butcher in London and Lionel Barber in Brussels

Britain is mounting a push in the last month of its European Union presidency to get Greece to drop its veto on EU money long promised Turkey as a counterpart to its 1996 customs union with Europe.

Robin Cook, the UK foreign secretary, wound up ministerial talks in Ankara on Tuesday night by telling a press conference "it is clear that 14 member states want to see" Turkey get its promised Ecu275m (\$410m)

financial aid from Brussels and saying that "there are ways we can take this forward".

UK officials in Brussels suggested yesterday that this might mean Greece's 14 EU partners pushing through some separate financial arrangement for Turkey if Greece does not give way.

Meanwhile, EU ambassadors of the 14 were yesterday trying to persuade their Greek colleague to lift his country's objection to the EU's formal opening statement at an EU-Turkish meet-

ing set for next Monday in Brussels. Turkish ministers have still not committed themselves to attending the meeting, which Britain has called to try and Ankara's five-month freeze in political relations with the Union.

Mr Cook's plan, which met Turkish assent on Tuesday, is for the formal part of the EU-Turkish association council to focus on the Brussels Commission initiative to expand the customs union, and for the sensitive political issues of Cyprus and human rights inside Turkey to be discussed informally.

Greece has so far indicated it has no intention of letting the latter issues be sidelined.

A senior UK source claimed this week "there are two or three ways to get around the Greek government's opposition" to the money that Athens was supposed to unlock in return for getting a start to Cyprus' entry negotiations into the EU.

One possibility mooted is to pump more money to Turkey through the EU's Mediterranean programme whose disbursement does not

require the unanimous say-so of all 15 states. A more distant option could arise if, following more positive wording at next month's EU summit in Cardiff, it was decided to prepare Turkey for eventual membership negotiations - without a set amount of money as these applicants will get.

The same UK source also warned of a "problem for the Greek government carrying on being obstructive on an issue where the 14 feel increasingly strongly".

Turkey's Virtue party to revive Islamist agenda

Defunct Welfare party has regrouped under a new title and is demanding freedom of expression, reports Kelly Couturier

Under the weight of a military-led crackdown against Turkey's Islamist movement, the country's new religious-oriented party has begun to fight back.

"There has been an attack on democracy in Turkey," said Aydin Menderes, a member of the Virtue party, which regroups most members of the now-defunct Islamist Welfare party.

The Welfare party was banned for anti-secular activities in January as part of the military-orchestrated clampdown against the country's Islamist movement which began last year.

Anxious to distance themselves from the Welfare party, leaders of the Virtue party have dropped any language that explicitly links them to the previous Islamist movement, preferring instead to stress democratisation and calls for increased freedom of expression.

But behind the new language of the Virtue party, many observers say, is the same goal espoused by Wel-

fare: to bring public policy in line with Islamic principles.

"Nothing has changed from Welfare's transition into the Virtue party," said Bülent Akarcali, member of Parliament for the ruling Motherland party.

In the continuing crackdown against religious fundamentalism, the minority coalition government of Mesut Yilmaz, the prime minister, has enacted a sweeping education reform that has effectively slashed enrolment in religious schools.

Police raids have been launched in several cities against businesses suspected of financing fundamentalist activities, with dozens taken into custody for interrogation.

And courts have brought a series of cases against Islamist politicians, including Istanbul mayor Recep Tayyip Erdogan and Necmettin Erbakan, who headed the Welfare party and served as prime minister during the party's brief stint in power

in 1996-97. Mr Erbakan's government collapsed in June 1997 under heavy pressure from the military after he failed to enact anti-fundamentalist measures sought by the top brass.

Months earlier the military - the nation's self-appointed guardians of Turkey's secular traditions - had identified religious radicalism as the country's top domestic threat.

Mr Erbakan, who was banned from practising party politics as a result of the court decision to dissolve the Welfare party, faces trial in June on charges of insulting the Constitutional Court.

Mr Akarcali, of the Motherland party, agrees that Turkey needs more freedoms, including freedom of expression and freedom of belief.

But like many in the secular establishment, Mr Akarcali shares the military's deep mistrust of the country's political Islamic movement and says that everything now being done by the state to stop fundamentalists in their tracks is justified.

"Democratically, they are

totally unreliable," he said, referring to the political Islamist movement.

"They are creating divisions in the country just like the [Kurdistan Workers party] PKK has done," he said, referring to the armed separatist group that has waged a guerrilla war in south-eastern Turkey since 1984.

To overcome those divisions and stop the rise of fundamentalism in Turkey, the government, according to Mr Akarcali, must follow policies geared toward continuing economic growth, reducing inflation - now running at an estimated 90 per cent - and cutting down the gaping disparities in income distribution among Turkey's richest and poorest.

These policies, the legislator says, will do much to repair the political fragmentation that has led to the weak, ineffective government coalitions of recent years.

"When there is a strong civilian government, there is no instability and the army minds its own business," he said.



Malta's PM faces mounting opposition

By Godfrey Grima in Valletta

Alfred Sant, Malta's prime minister, is facing open defiance from an increasing number of MPs who oppose many of his key foreign and domestic policies.

These include the decision to put on ice Malta's application to join the European Union, tough budgetary measures being enforced this year, and a proposal to introduce divorce on the predominantly Catholic island.

Leading the charge are two Labour party heavyweights, Dom Mintoff, a former prime minister and party leader, and Lino Spiteri, Mr Sant's former minister for economic planning and finance. Mr Spiteri resigned in March last year, sparking widespread rumours of serious differences with the government over its customs tax regime, which replaced value added tax.

Mr Spiteri set off another controversy this month by advising the government to revive Malta's application to join the EU and by endorsing the virtues of VAT over the existing customs and excise tax regime.

His stand, published in a local newspaper, followed the announcement in Luxembourg in April of the conditions Brussels had laid down for the creation of a free-trade zone with Malta in three years' time.

In addition, two other Labour MPs have stated they will vote against the introduction of divorce in parliament if given a free vote.

Support for Mr Sant's government is at a low ebb, not least because of the sluggish performance of Malta's economy, even though tourist receipts and the export of semi-manufactured goods are on the increase.

Two Van Goghs and a Cézanne stolen

Masked gunmen broke into a Rome museum and stole two priceless paintings by Van Gogh and one by Cézanne, a museum official said yesterday. Agencies report from Rome.

The gunmen broke into the National Gallery of Modern Art on Tuesday night, bound and gagged three guards and locked them in a room before making off with the paintings, the official added.

Blanca Alessandra Pinto, the museum's superintendent, said the works were Van Gogh's "The Gardner" (above) and "L'Arlesienne", and Cézanne's "Le Cabanon de Jourdan".

The paintings were too famous to be sold and the thieves went directly to them, bypassing other valuable works. This suggested the

PHOTO: AP/WIDEWORLD



Insert.

IFC to take Macedonia telecom stake

World Bank arm agrees to subscribe to \$25m of convertible bonds to help pave way for flagship privatisation in former Yugoslav state

By Kevin Done, East Europe Correspondent

The International Finance Corporation, the private sector arm of the World Bank, has agreed to take a stake in Makedonski Telekomunikacioni (MakTel), Macedonia's state-owned telecommunications utility.

It has subscribed to \$25m of convertible bonds in MakTel in a preliminary move aimed at paving the way for the flagship privatisation of the telephone operator later this year. It has also undertaken to seek institutional investors to invest a further \$25m in a second tranche of convertible bonds.

The Macedonian government is hoping that the IFC investment will increase interest from western telecoms groups in the sale of a strategic holding in MakTel, which is planned to take place by international tender during the summer, before the general election in the autumn.

A successful privatisation of MakTel is crucial to government plans for reforming the slow-moving economy.

The poorest of the states to emerge from the collapse of former Yugoslavia, Macedonia has received less foreign direct investment than any of the countries in east Europe since the collapse of communism.

The value of this single transaction, which could transfer MakTel at around \$500m, is expected to exceed all of the foreign direct investment that has flowed into Macedonia since it declared independence in 1991.

The government is offering a stake of 33.3 per cent and management control as part of the effort to kickstart its belated privatisation programme.

It is planned that the bonds sold to IFC and other potential financial investors will be converted into new shares at the same price as negotiated by the government with strategic investor, up to an upper limit of 7.5 per cent of the MakTel equity.

Outstanding bonds above this amount will continue to

be held by the investors. The bonds have a five-year maturity, variable interest rate, and a two-year grace period for repayment of principal.

Macedonia is also negotiating a separate pre-privatisation financing deal for MakTel with the European Bank for Reconstruction and Development.

The EBRD is considering the investment of \$25m in a special category share in MakTel. The share would be exchanged for ordinary shares from the government's holding at the

A successful privatisation of MakTel is crucial to government plans for reforming the slow-moving economy

moment of privatisation, as with IFC, at the price agreed with the strategic investor.

The government is offering a monopoly on fixed telephone services to the end of 2005 and on mobile telephony to 2000.

The government is hoping that this deal, together with the imminent sale of a majority stake in Stozenska Banka, the country's largest bank, to a consortium led by Erste Bank of Austria and including IFC and EBRD, will finally put it on the map for foreign investors.

The funds from IFC and other potential investors will be used to finance MakTel's capital investment programme this year of around \$75m.

Macedonia's 2m people have about 400,000 telephone lines, a penetration rate of around 20 per cent, but it is planned to double this by 2002.

About 40,000 new lines were installed in 1997 and a further 60,000 are planned this year.

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THE AMERICAS

Push through tobacco bill, urges Clinton

By Mark Sennan
in Washington

President Bill Clinton yesterday pressed Congress to move quickly on the proposed national tobacco settlement being debated in the Senate, but the legislation remained bogged down by disputes ranging from the amount cigarette prices should be raised to what should happen to subsidies for tobacco farmers.

In his clearest endorsement of the legislation so far, Mr Clinton used a carefully staged White House event with 1,400 children to warn that tobacco was the "greatest public health threat" facing young Americans.

"This bill is our best chance to protect the health of our children, to keep them from getting hooked on cigarettes," he said.

"It is a good strong bill. Congress should pass it and pass it now."

But despite Mr Clinton's urging, it seemed increasingly likely that a final vote on the controversial legislation would be delayed until after the Senate returned from next week's Memorial Day recess as agreements on a number of crucial amendments proved elusive.

John McCain, the principal sponsor of the bill, said that while he had never "firmly expected" debate to be completed this week, he remained optimistic that the outstanding problems could be resolved in time.

However, Don Nickles, the majority whip and an outspoken opponent of the proposal, said he thought a final vote this week was now highly unlikely.

The biggest disagreement so far has focused on protections for tobacco farmers who would be hit by the legislation.

Further unresolved disagreements include the scale and pace of cigarette price rises and proposed provisions to limit the liability of tobacco companies if they fail to reduce underage smoking to \$4bn from \$3.5bn.

Although the bill calls for a \$1.10 rise per pack over 5 years, some senators want a

much tougher \$1.50 increase over three years.

Following discussions with the White House, Mr McCain has also agreed to propose an increase in the annual liability cap on damages the industry can be required to pay out from \$6.5bn to \$8bn while also raising the maximum financial penalties on tobacco companies if they fail to reduce underage smoking to \$4bn from \$3.5bn.

That is still not enough for many legislators, though,

and a further amendment on whether to strip the bill of all liability protections is also due to be debated.

Nevertheless, one contentious issue was resolved on Tuesday night when an amendment on whether to limit the lawyers' fees for the settlement was defeated. Many trial lawyers who helped bring suits against the tobacco industry stand to make hundreds of millions of dollars in contingency fees if the legislation is approved.

With the Exchange eager to expand its number of



President Bill Clinton and Vice President Al Gore walk with local schoolchildren to the White House

South Lawn yesterday. The shirts read: 'Tobacco legislation now'

New York SE may be trading places

By John Labate in New York

The signs haven't been posted yet, and New York City officials are scrambling to close a deal that could keep the New York Stock Exchange on Wall Street. But the world's largest stock exchange remains on the brink of deciding whether to vacate one of capitalism's more famous Corinthian-columned buildings that has been its home for nearly 100 years.

Despite \$1bn in technology investments in the past decade, the NYSE past decade, the NYSE lacks perhaps the most precious commodity to the hundreds of traders and specialists who busily ply their trade there every day: space.

"It's not a crisis for the company listings, but it is an ongoing crisis for the mechanics who actually have to turn the nuts and bolts on the trading floor," said Bob Seijas, co-president of the Specialists Association, which represents the watchdogs who oversee trading.

domestic and non-US listings in coming years, it has little choice but to add to its existing trading space or find a new building.

But after two years of talks with city officials to annex more space, the NYSE has little to show for its efforts.

However, negotiations are still continuing between the mayor's office and nearby property owners.

At least one of the property owners seems to be unwilling to go without a fight, though. Negotiations and possible legal action could chew up years in the courts, placing the Exchange in an even tighter squeeze.

Earlier this month New York's neighbour to the west, New Jersey, pushed into the negotiating spotlight with a package of incentives to lure the NYSE

or across the Hudson, in Jersey City. But few really believe the Exchange would make such a drastic relocation to New Jersey.

Any move off Wall Street would break a long tradition. In 1792 a group of 24 commodity and stock traders agreed what has become known as the Buttonwood Agreement, an anti-monopoly compact signed beneath a nearby Buttonwood tree.

The New York Stock & Exchange Board was later formed in 1817, meeting in a rented room at 40 Wall Street. In 1863 the Board changed its name to the New York Stock Exchange, building its own headquarters two years later. On the same site in 1903 the Exchange's current building opened for business.

Who could buy such a lavish trading operation, marble walls, gilded ceiling and all? By coincidence, the second-largest US stock market, Nasdaq, has said it is considering moving at least some of its operations to New York from Washington DC. Should it feel the need to move downtown the NYSE may have a future buyer.

NEWS DIGEST

POSSIBILITY OF \$1.6BN STANDBY LOAN

IMF approves 'shadow' accord with Venezuela

The International Monetary Fund has approved a "shadow agreement" with Venezuela, boosting the government's credibility in an attempt to combat the bleakness of investor prospects. Under the agreement, struck late on Tuesday after nearly a year of faltering negotiations, the IMF will monitor the government's economic programme but will not disburse any credits.

"IMF management supports Venezuela's efforts and believes that the authorities have formulated a suitable economic programme, which will be monitored by IMF staff," the IMF said in a press release. The government's economic targets include a 28 per cent year-end inflation rate, a 2.5 per cent budget deficit and a 3 per cent gross domestic product growth rate.

Some investment bankers familiar with the deal said the IMF was holding out the possibility of formalising a stand-by loan of up to \$1.6bn later in the year, if Venezuela shows progress in meeting its current objectives.

The agreement could signal a turnaround in investor sentiment towards Venezuela, where economic prospects have been clouded by recent uncertainty over low oil prices and the outcome of December's presidential elections.

"In the present context of negative sentiment towards Venezuela, it could help generate a more positive feeling," said Peter West, chief analyst at BBV Latinwest, an investment bank, in London. Raymond Colitt, Caracas

CANADIAN TRADE BALANCE

Mild winter damages exports

Canada's merchandise trade surplus dipped to C\$1.6bn (US\$1.13bn) in March as mild weather and the Asian crisis hurt exports of energy, agricultural goods and metals.

The C\$300m decline from February's surplus was primarily due to a 19 per cent drop in energy exports, an 8 per cent decline in agricultural and fish products, and a 5 per cent fall in aluminum exports. These were partially offset, however, by continued strong growth in exports of automotive products, which rose 4 per cent in March.

Exports to Japan continued to fall, dropping 33 per cent from the first three months of 1997 as Japanese purchases of lumber, nickel and aluminum declined. Imports also fell 1.2 per cent from February to March, led by a 4 per cent drop in machinery and equipment imports and a 13 per cent drop in energy imports.

Analysts said the weaker trade performance would continue to put pressure on the Canadian dollar, which fell below 69 US cents in mid-day trading. Canada's current account deficit last year was C\$17bn, and the poor trade performance is likely to increase that deficit this year. Edward Alden, Toronto

MEXICAN ECONOMY

GDP growth at 6.6%

When finance executives from a group of multinational companies in Mexico recently asked each other over breakfast how their sales performance had been this year, the high numbers caused some almost to choke on their coffee. The impression was borne out when Mexico announced this week a 6.6 per cent rise in first quarter gross domestic product, a sign that the economy had continued the strong pace set last year in spite of two budget cutbacks to offset slumping world oil prices.

The growth was stronger than many economists had expected, partly because a late Easter meant there were three more working days in March than in the same month last year. But the figure also included a 6 per cent decline in the farm sector because of drought, which economists said might mask a higher underlying growth rate.

The resilience of the economy to fiscal and monetary tightening in the first quarter as Mexico sought to limit the vulnerability of the budget to low oil prices has come as a surprise to many. Henry Trick, Mexico City

PANAMSAT SWIVELS

Satellite glitch shocks America

The US got a brief glimpse yesterday of what life would be like without modern telecommunications: a place where pagers don't beep, data feeds dry up and TV signals fade into the ether. The disruption began late on Tuesday when a communications satellite operated by PanAmSat swivelled in its orbit, breaking the downlinks that carried voice and data signals back to Earth.

Communications companies that relied on the satellite began the process yesterday of switching their traffic to alternative satellites and most predicted a return to normal service for most of their customers by last night.

Visitors to the web site of Charles Schwab, one of the most successful retail stockbrokers on the internet, were greeted with day-old share prices — though the company said regular customers, with a password, could see pages displaying up-to-date prices that were supplied through a separate feed. Richard Waters, New York

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ASIA-PACIFIC

RECESSION IMPORTS ALSO PLUNGE, HIGHLIGHTING WEAKNESS OF DOMESTIC DEMAND AND INCREASING POLITICALLY SENSITIVE TRADE SURPLUS

Japanese exports down as sales to rest of Asia fall 18%

By Paul Abrahams and Gillian Tett in Tokyo

Japanese exports dropped in April for the first time for almost three years after sales to the rest of Asia plunged by 18 per cent.

The decline suggests that turmoil in much of Asia is now starting to hurt the Japanese economy, which is technically in recession. Last year exports were almost the only sector of the Japanese

economy that showed growth.

Imports into Japan also dropped sharply in April, highlighting the weakness of domestic demand. This left Japan's politically sensitive trade surplus up 52.6 per cent in April, compared with the same period last year.

The overall surplus was Y1.223bn (\$8bn), marginally above expectations. The surplus with Europe jumped 59 per cent and that with the

US 29 per cent. However, the surplus with Asia fell 28 per cent.

Exports fell by 1.7 per cent, the first fall since July 1995. This was largely due to the drop in exports to Asia. Sales to Korea fell 41 per cent, Thailand 43 per cent, Indonesia 53 per cent and Malaysia 31 per cent. Exports to the US rose just 7.4 per cent and those to Europe 16.2 per cent.

The dire state of the domestic economy was underlined by the 13.8 per cent fall in imports. However, the scale of the decline was exaggerated by weak oil prices, which were 38 per cent lower. HSBC James Capel estimates that a quarter of the increase in the surplus was caused by these falling oil prices.

Further confirmation of the economy's shaky condition was given by the ministry of international trade and industry, which said industrial production in March fell 2.3 per cent year-on-year. It predicted a further fall in April of 1.8 per cent, before a rise of 0.6 per cent this month. However, the ministry warned output remained on a declining trend.

Separately, the Federation of Electric Power Companies said consumption in April by large-lot consumers had

fallen 1.8 per cent year-on-year.

The economic gloom in the corporate sector is being made worse by tighter lending by the banks. The Bank of Japan yesterday said that bank loans had fallen by 3.3 per cent in the year to March, a record fall.

Lending to smaller companies was badly hit, dropping 3.9 per cent. By sector, textiles and steel showed striking declines. Loans for capi-

tal investment fell particularly sharply, dropping 10.2 per cent among large manufacturers, and 4.3 per cent among medium-sized groups.

Many banks were trying to

reduce assets before the end of the fiscal year on March 31 to meet capital adequacy standards that were tightened this year as part of the "Big Bang" reforms.

This tighter lending has, in turn, triggered a wave of

bankruptcies. These rose 26 per cent in the year to April, according to figures released by Teikoku, a research group, earlier this week.

Economists and credit rating agencies warn the squeeze will continue.

Akio Mikuni, head of the Mikuni credit rating agency, for example, now forecasts that

there will be up to Y15,000bn in bankruptcies

this year.

Beef export set to resume next month

Companies try to stem losses in Indonesia

By Michi Nakamoto in Tokyo

Japanese companies are reviewing their operations in Indonesia in an effort to stem widening losses because of the crisis in the country.

Marubeni has postponed the expansion of a \$1.9bn ethylene plant in Chandra Asri, western Java, jointly owned with Indonesian investors. Mitsubishi Corporation says the decline in the Indonesian market has seen sales slump by Y80bn (\$556m) in the year to March. An electric power generation plant in which it had planned to take about a one-third stake, has had to be postponed.

Itochu and Nissho Imai, two trading companies, have also been faced with the postponement of a petrochemical plant in which they each have taken a 5 per cent stake each. Indonesia's Tirtamas group has a 70 per cent stake in PT Trans-Pacific Petrochemical Indotama, the \$3.1bn petrochemical plant in eastern Java, while Thailand's Siam Cement owns 20 per cent.

Sumitomo, Mitsui, Tomen and Nichimen have also invested jointly with British Petroleum and the local Salim group in a petrochemical plant which has also been postponed.

Japanese trading companies are exposed in broadly two ways. First, the cost of

servicing loans taken on by their Indonesian subsidiaries in foreign currencies, mostly the US dollar, has become more onerous as the rupiah continues its slide. Marubeni, for example, is taking an extraordinary loss to cover such additional funds.

Second, the downturn in local demand, has kept factories idle and inventories piling up. Everything from entire plants, such as petrochemical plants, to motor vehicle parts, are affected.

The downturn has serious implications as Japan is Indonesia's largest export market, and the country from which it imports the most. Exports to Indonesia from Japan were down 53 per cent in April alone, and imports to Japan from Indonesia were down 34 per cent, according to the latest government statistics.

Asia, excluding Japan, makes up less than 10 or 15 per cent of Japanese trading companies' earnings, says Matt Aizawa, industry analyst at Merrill Lynch in Tokyo.

The problem is that local companies cannot buy the parts they need from abroad, to make the finished products, either because they are too expensive or cannot get the funds to purchase them, says Katsushi Shibata, director of the Jakarta Centre for the Japan External Trade Organisation.

Amien Rais, a Moslem opposition leader, cancelled a planned mass rally, citing fears of violence. But addressing students at the parliament yesterday he predicted Mr Suharto would soon be forced to step down.

Yesterday's planned rallies had been viewed as a test of opposition to Mr Suharto's regime and had raised fears of renewed civil unrest after rioting and looting left more than 500 dead in Jakarta last week. But tight security and Mr Suharto's offer this week to stand down early after implementing economic reforms, appear to have averted confrontation. By yesterday evening many of the army roadblocks in Jakarta had been removed.

"Everything depends on whether Suharto is serious about political reform and whether he can arrest the collapse in the economy," said one diplomat. "International investors and the International Monetary Fund are going to want to

see some specifics about his reform timetable before their confidence can be restored."

Diplomats said yesterday's peaceful protests had improved the immediate prospects for stability. However, they cautioned that the country's deepening economic crisis could provide triggers for further unrest.

"Suharto is counting the days," he said. Diplomats said yesterday's peaceful protests had improved the immediate prospects for stability. However, they cautioned that the country's deepening economic crisis could provide triggers for further unrest.

While political opponents are seeking an immediate session of the People's Consultative Assembly to replace Mr Suharto, the Indonesian leader has proposed a potentially lengthy process. According to his plan, parliamentary elections would be held after new electoral laws have been drawn up. This parliament, along with 500 appointed members would

form a new consultative

South Korea to buy banks' bad debts

By John Burton in Seoul

The South Korean government yesterday said it would recapitalise troubled banks and buy their bad debt in a "final" effort to save the tottering sector from collapsing under Won118,000bn (\$82bn) in sour loans.

The plan could severely erode the capital base of Korea's biggest banks as they are forced to write off bad debts, which could lead to closure or government-supervised mergers.

The government will inject Won11,000m into the banking sector through bonds issued to the banks in exchange for debt and direct equity stakes. The bonds would be issued by the two state-run agencies, the Korea Deposit Insurance Corporation and the Korea Asset Management Corporation.

The KAMC, a state resolution fund similar to the one set up in the US to rescue the savings and loans banks, will buy Won50,000bn in non-performing loans at a 50 per cent discount of Won25,000bn to clean up balance sheets, while the KDIC will make direct injections of Won16,000bn from a bond issue for recapitalisation.

Foreign governments, including the US and Australia, urged Mr Suharto to move as quickly as possible with reforms.

The KAMC will later sell assets acquired from the banks to recoup investments.

The KDIC will also make a Won9,000bn public bond issue for improved depositor protection.

Of the planned Won50,000bn bond issue, the finance ministry said that Won40,000bn would be issued during the second half of this year with the remainder to

be offered next year.

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The financial supervisory board is reviewing the prospects of 12 banks that failed to meet the Bank for International Settlements' capital adequacy ratio of 8 per cent last year and a decision on their future is expected by the end of June.

Two other banks, Korea First and SeonBank, have already been nationalised and will be offered for sale to foreign investors by the end of November.

Kang Bong-kyun, senior presidential economic adviser, said there was no guarantee that all the banks would be saved once the review process was completed. "We are prepared to allow some to fail."

The bank reform plan received a cautious response from foreign observers. "The government had little alternative to nationalising most of the banking sector since it was unlikely that foreign banks would provide needed funds through equity investments," said one UK banker.

Hyundai Motor, Korea's largest carmaker, yesterday confirmed it plans to sack 18 per cent of its 45,000 workforce in the first mass redundancies among Korea's big conglomerates.

Japanese raise loan provisions

By Gillian Tett in Tokyo

each to have exposures of between \$2bn and \$4bn.

Concern is growing that Indonesia's problems could further undermine the health of the Japanese banking sector, particularly if the problems spill over into the rest of the Asian region.

This week, Moody's, the US credit rating agency, said that risky Asian lending was one factor behind a recent rating review of Sumitomo Bank, BTM and IRB.

"For several large Japanese banks, East Asian portfolios represent about 100 per cent of private sector loans to Indonesia and groups such as STM, Sawa, Sakura and Industrial Bank of Japan (IBJ) are estimated

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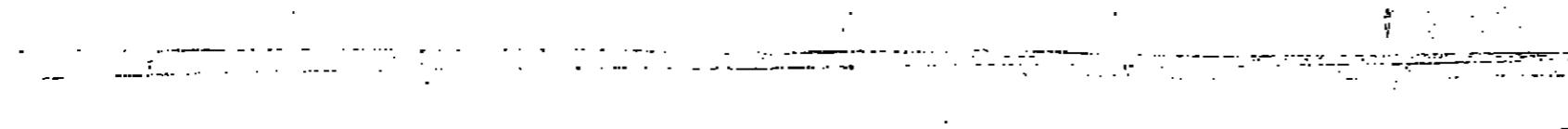
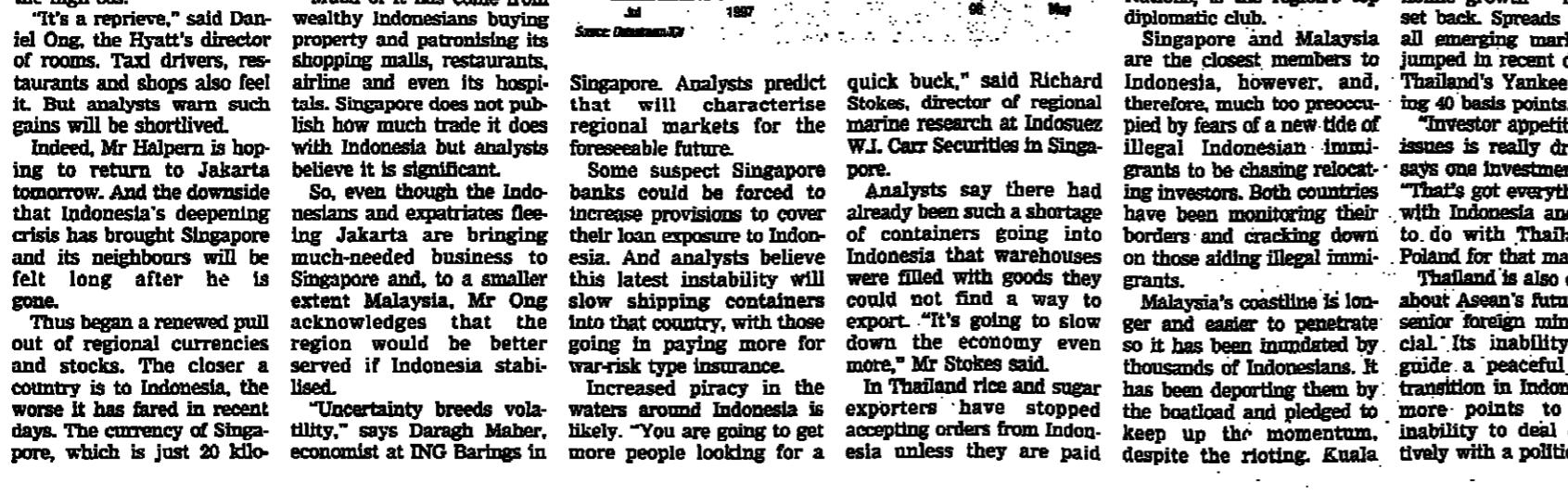
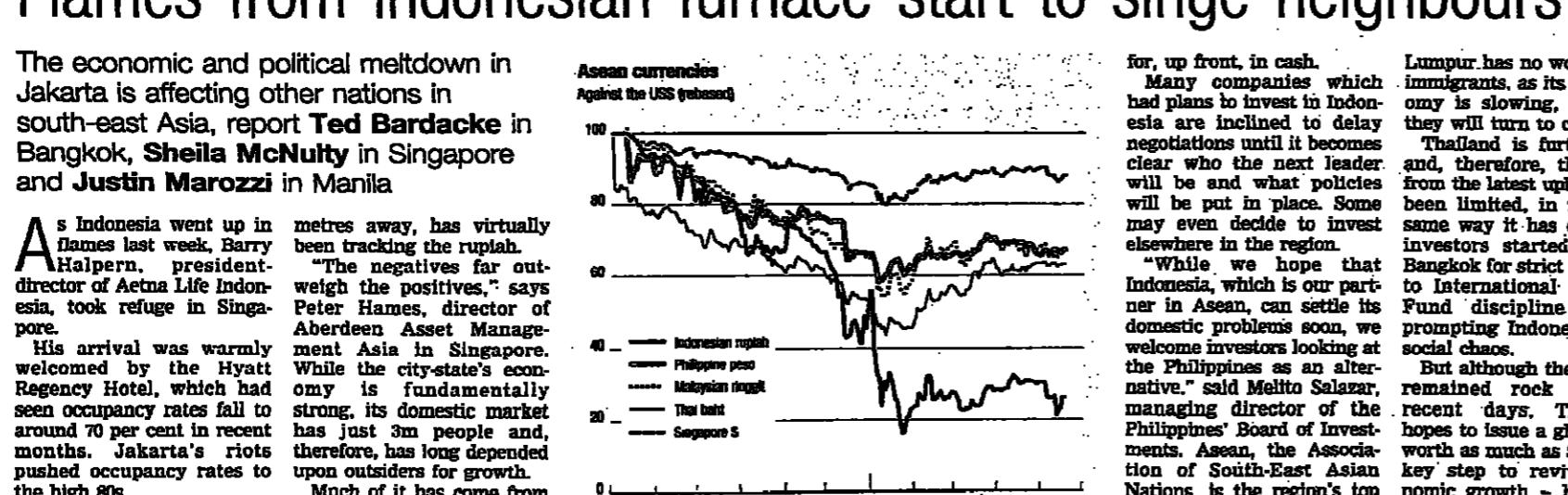
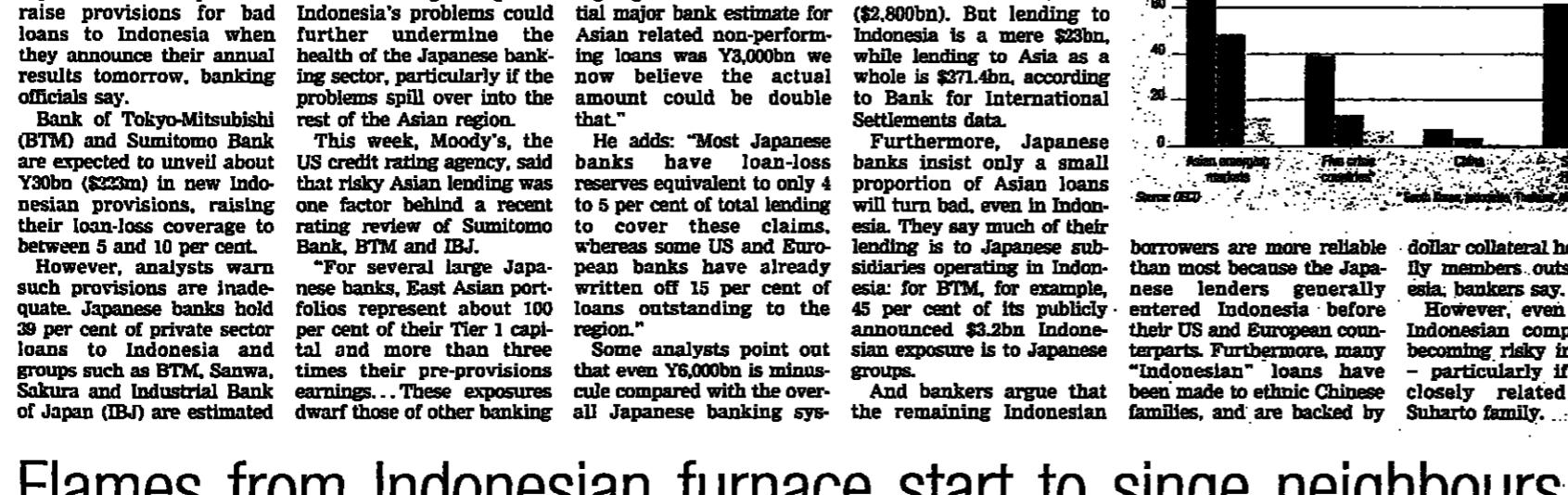
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"For several large Japanese banks, East Asian portfolios represent about 100 per cent of private sector loans to Indonesia and groups such as STM, Sawa, Sakura and Industrial Bank of Japan (IBJ) are estimated



Malaysia to buy up bad loans

By Sheila McNulty in Singapore

Anwar Ibrahim, Malaysia's finance minister and deputy prime minister

BRITAIN

Tough penalties for ex-MGAM men

By Jane Martinson,
Investment Correspondent

Imro, the fund management watchdog, suspended four former employees of Morgan Grenfell Asset Management yesterday for their role in the Peter Young unit trust scandal.

The actions, which include the first lifetime ban for an officer, add up to £1.4m (\$2.3m) to the total costs of the case for Deutsche Bank, the German parents of Morgan Grenfell.

The bank was fined £2m

and paid another £1m in fees last year for its failure to prevent Mr Young, a top-performing manager, from breaching investment guidelines in a trust held by some 160,000 investors.

Deutsche agreed to pay the legal costs of the men when they were sacked on a year's notice in October 1996. It estimated these costs at about £50,000 each at the time. Yesterday's decision includes Imro costs of about £200,000 for each individual. A further £150,000 has been spent on legal fees.

BSE EU COMMISSIONER BACKS END OF BAN

Beef exports set to resume next month

By Michael Smith in Brussels and Maggie Urry in London

Exports of beef from the UK seem certain to resume on June 1 following moves in Brussels this week to end the two-year ban on overseas sales.

Approval would apply initially to exports from Northern Ireland, but carries symbolic importance for the entire UK beef industry.

Franz Fischler, European Union farm commissioner, is recommending that his fellow commissioners support the June 1 date after the so-called certified herds scheme was approved by the standing veterinary committee this week.

The scheme would allow exports of beef from herds certified to be free of BSE - "mad cow disease" - where the animal's history has been tracked on a computer database. Northern Ireland is the only part of the UK with such a tracing system.

Exporters said, however, that the strength of sterling and possible continuing consumer resistance to British beef mean it could take several years to regain former levels of sale.

David Rutledge, chief executive of the Livestock and Meat Commission in Belfast, said exports from Northern Ireland were about £300m (\$500m) a year before the ban. The commission's target was to recover half the sales by volume within three years.

But the strength of sterling since the ban was imposed has cut beef prices by about 30 per cent. "Technically we will be able to export," he said. "But commercially it's going to be hard work." The commission plans a "relaunch" event in Brussels within two or three

weeks of the ban being lifted.

Craig Dunnigan, business development manager at Granville Meat, one of two companies planning to start exporting beef, said export sales would be "an unknown quantity" until the market had reopened. Granville had maintained contacts with former customers throughout the two-year ban, and was optimistic about renewing sales to them.

Ian Gardner, policy director of the National Farmers' Union of England and Wales, said Brussels officials had undertaken to make progress on a second export plan once the Northern Ireland scheme had taken effect.

This would allow the export of meat from animals born after August 1996, the date when contaminated feed, thought to be the source of the infection, was removed from farms. EU farm ministers will consider this in the next two months.

The UK beef industry was devastated in March 1996 when the EU banned worldwide exports, amounting to more than £500m a year, after the government announced there could be a link between BSE in cattle and a new form of CJD, the deadly human brain disease.

A House of Commons committee called for emergency aid to Welsh livestock farmers yesterday in a report which said the industry was "in crisis". The Welsh affairs committee said that farmers in the region were suffering more than elsewhere in the UK. "For many Welsh farmers the situation is desperate."

Many farmers suspected supermarket chains were "profiteering" at their expense, though this is denied by the retailers".



Northern Ireland chief minister Mo Mowlam and Virgin chairman Richard Branson yesterday campaigned jointly in the city of Belfast for a Yes vote in tomorrow's peace referendum. On his third visit to the region in as many weeks, Tony Blair, the UK prime minister, made a pledge against violence to win round wavering unionists who feel the proposed deal offers too many concessions to nationalists. Editorial comment, Page 13

Reuters

Policy paper on worker rights to be issued today

By Robert Peston and Robert Taylor

The government will today announce the biggest extension of employee rights and trade union opportunities in a quarter of a century, reversing the trend of legislation in the years under Margaret Thatcher, former Conservative prime minister.

A controversial Fairness at Work policy paper, which will be published today after lengthy delays, will give all employees the right to be represented by a trade union official in a "disciplinary or grievance" procedure.

Legal protection against unfair dismissal will also be extended to millions of workers by cutting the qualifying period of employment from two years to one. In spite of earlier fears that the package would prompt the sharpest criticism from trade unionists - disappointed at rules on union recognition in the workplace - it is now likely that more serious anti-government reaction will come from employer organisations and companies.

"This paper will show that the government is not so friendly to business after all," said Ruth Lea, policy director of the Institute of Directors. It plans to work with other employer bodies to push for modifications.

"We are very aggrieved and seriously disappointed," added Ms Lea.

A union leader said the white paper was "a big step forward for us" and that a "big price" had been extracted for losing an important argument over union recognition rules.

The biggest breakthrough for the trade union movement is that every employee in every company, no matter how big or small, will have the right to be represented by a union official over a "grievance or disciplinary" matter.

"There is no company in the land which will be able to keep us out," said a union leader.

Mr Hague's speech was more extreme than those made by Margaret Thatcher when she was Conservative prime minister.

Mr Hague believes that his view of Europe is in the ascendancy in the party, and that Mr Heseltine and Ken Clarke, the former chancellor of the exchequer, are speaking for a small and diminishing faction.

Yesterday pro-Europeans were planning their revenge.

One Conservative MP said Mr Hague's speech was "a declaration of war" and that "it read like an undergraduate essay".

It is thought that they will be publishing a series of pamphlets in the coming months, setting out how they believe the party should be preparing for the reality of the single currency.

CONTRACTS & TENDERS

CONTRACTS & TENDERS

Park Lane and Audley Square Car Parks Management Contract

1. Westminster City Council is seeking expressions of interest from organisations to manage, market and assist in the refreshment of two Mayfair Car Parks.

2. Audley Square and Park Lane Car Parks have a combined capacity of 1300 spaces close to the heart of London's shopping and tourist industry. Both car parks are currently subject to leases which expire on 31 March 1999. It is the City Council's intention to run both car parks itself after the date with the assistance of a management contractor.

3. The management contract will be for a period of up to five years with an option for a further two years extension subject to performance. The Contractor shall act as the Council's agent in managing the car parks on a day to day basis and advise the City Council on methods to promote and market the car parks. The Contractor will suggest ways in which the car parks might be made more attractive to customers as part of a refreshment programme.

4. Expressions are sought from companies, partnerships or consortia. The City Council will short list up to five tender. Financial capacity and relevant experience will be the main short listing criteria. However, expressions are particularly welcome from those who can offer management flair and an innovative approach to marketing, preferable backed up with a proven track record. Accordingly expressions will be considered from a wide range of sectors and not exclusively those specialising in car park management.

5. Information in the form of the project summary is available and can be obtained by applying to writing to the address below. The project summary will contain a short letting questionnaire.

6. Expressions shall be made by completing the short letting questionnaire and returning it to the address below. It must be received no later than 1 June 1998. Relevant additional supporting information may also be included.

7. It should be noted that the transfer of Undertakings (Protection of Employment) Regulation 1981 may apply to this contract.

8. No tenancy shall be granted to the successful Contractor who will be employed only in a management and consultancy capacity.

9. The contract will be let to the most economically advantageous tender. The factors making up this criteria will be set out, in full, in the tender documents. However the City Council shall be seeking to award a contract which offers best value in the provisions of the Services.

10. Tenders are invited to be submitted in June 1998.

25 April 1998

Address for correspondence:

Michael Bepler, Car Parks Manager,

106 Flora, City Hall,

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FINANCIAL TIMES

No FT, no comment.

The STATE OWNERSHIP FUND, a Romanian public institution based in Bucharest, 6 Stavropoleos Street, sector 3, is offering for sale by direct negotiation according to the Government Urgency Ordinance no.83/1997a 50.97 % of the issued share capital of TREMAG S.A. Company, Tulcea.

- Registered Office: Tulcea, Str. Taberei, nr. 49, Jud. Tulcea.
- Fiscal Code: R 2361559.
- Registration no. at Commercial Register Office: J/36/32/1991.
- Issued stock capital, according to the latest records at the Commercial Register Office: 19,189,175 thousand ROL.
- Turnover in 1997: 105,854,467 thousand ROL.
- Net profit in 1997: 4,738,151 thousand ROL.
- Main scope of activity: manufacturing and trading of refractory materials.

Total number of shares at a nominal value of 25,000 ROL each: 767,567.

The state ownership structure is as follows:

<input type="checkbox"/> State Ownership Fund	50.97
<input type="checkbox"/> Financial Investment Company Moldova	1.00
<input type="checkbox"/> Contribution to the employees	18.26
<input type="checkbox"/> Natural persons	24.59

The price offer for the 50.97 % issued share capital, i.e. 391,227 shares is 4,854,382 USD.

The Company PRESENTATION FILE required for subscription to the offer may be obtained at the State Ownership Fund, BUSINESS CENTRE OFFERS DIVISION of the International Relations Department, Bucharest, 6 Stavropoleos Street, sector 3 phone 04-01310495; 3123130; 3124231 and fax 04-013121841, daily between 8.00 and 16.00 hrs, at a price of 1,000 USD for foreign citizens or legal entities, or ROL equivalent at National Bank exchange rate applicable on the PRESENTATION FILE purchase date for Romanian citizens and legal entities. This sum has to be transferred in advance to the State Ownership Fund account no. 2511000000002423900008 in USD at the Romanian Bank for Foreign Trade (BANCOREX) for foreign investors or no. 2511000000002423900008 in ROL at the Romanian Bank for Development-Bucharest Branch (BRD-SMB) for Romanian investors.

Further information about the company's privatization may be offered by S.O.R.'s SITE INTERNET at the address www.sor.ro.

The minimal environmental conditions accepted for TREMAG S.A., Tulcea are included in the company PRESENTATION FILE.

THE PRESENTATION FILE will be released on presentation of:

- a copy of the payment order for the presentation file;
- identity card (or passport for foreign citizens);
- certificate from the bidding company.

In order to participate in the negotiations, bidders are required to present evidence of putting at the Seller's disposal a guarantee of a participation i.e. 145,887 thousand ROL or 145,882 USD as follows: Romanian citizens or legal entities may pay cash to the State Ownership Fund, to account no. 2511000000002423900008 at the Romanian Bank for Development - Bucharest Branch (BRD-SMB); foreign citizens or legal entities may pay cash to the State Ownership Fund, to account no. 2511000000002423900008 in USD, at the Romanian Bank for Foreign Trade (BANCOREX); alternatively the bidders may insert the bank where they hold their account to release an unconditional bank guarantee valid for 120 days.

Only bidders who prove they acquire the Presentation File may submit their PURCHASING OFFER.

Bidders should submit the PURCHASING OFFER and the documents stipulated by the Government Decision no. 35/1998, article 27, published in the Official Gazette no. 661/2.02.1998 to the State Ownership Fund, Offers Division at the above mentioned address, in a sealed envelope, prior to 10th of June 1998, 16.00 hrs. local time (from deadline for submission).

NEWS DIGEST

COMPUTER SERVICES

French IT group to recruit 2,500 staff for UK venture

The buoyant state of the computer services market was underlined yesterday when Cap Gemini, the French information technology group, said it was seeking to recruit 2,500 extra staff for its UK business. The company said the move, which would be a 30 per cent increase on its present number of employees, was a reflection of the strong demand for IT services from UK companies.

Profits last year from Cap Gemini's UK business, announced yesterday, rose 49 per cent to £37.9m (\$56.3m) while its order book broke the £1bn mark for the first time. Sales increased 20 per cent to £410m. Demand is being driven by companies seeking to install new computer systems to improve the competitiveness of their businesses. The introduction of the euro is also beginning to generate IT-related business. Christopher Price, London

SAUDI ARABIA MURDER TRIAL

King Fahd releases nurses

The imminent release of two British nurses jailed for murder in Saudi Arabia was yesterday seen as a public relations move by King Fahd and a gesture of goodwill towards Tony Blair, the UK prime minister, at very little cost to the Saudi ruler.

Robin Cook, the foreign secretary, suggested King Fahd's "generous humanitarian act" was partly a reward for the UK government's efforts to improve relations with Arab states. King Fahd on Tuesday commuted the sentences of Deborah Parry and Lucille McLauchlan to the 1½ years already served in prison. The two nurses had been imprisoned on charges of murdering an Australian colleague in Dhahran in 1996.

The king's move followed Mr Blair's Middle East trip last month, during which he raised the issue. The case had threatened to spark a diplomatic row with Saudi Arabia, just as the British government was mending relations with the kingdom over the presence in the UK of a Saudi dissident who infamously killed Saudi rulers. Roula Khalaf and David Wighton, London

TELEPHONE PRICING POLICY

Watchdog warns industry

Britain's newly appointed telecommunications watchdog yesterday savaged telephone companies' pricing policies in an attack underlining its role as consumers' champion. Giving his first public speech since being appointed Ofcom director general, David Edmonds made clear that he had lost patience with the complexity and obscurity of tariffs published by operators of fixed and mobile phone services.

He warned he would act unless the industry made efforts to simplify its pricing structures and make it easier for customers to compare one operator with another. Alan Cane, London

PRICE FIXING BAN

Order on electrical goods

The government yesterday finally moved to abolish price fixing on electrical goods almost a year after it backed the findings of a two-year Monopolies and Mergers Commission inquiry.

BRITAIN

Profits at banks 'soon to decline'

By George Graham,
Banking Editor

The Bank of England yesterday delivered a farewell warning to the banks it has supervised for 20 years by saying that their profits must be about to drop.

In its last report on banking supervision before handing over its duties to the Financial Services Authority, the Bank warned that lending terms for management buy-outs and commercial property were showing signs of loosening.

"It is hard to identify any area where prospects look better now than they did a year ago," said Michael Foot, executive director at the Bank, who will move to the FSA as managing director in charge of financial supervision.

With fierce competition from new entrants in the credit card and mortgage markets, profits in these areas could also be driven down.

But after several years of strong profits, banks were in very good shape to weather a downturn, the report said.

Moreover, banks were not showing the sort of spendthrift lending behaviour that led to trouble in the past.

As a group, the large UK banks made combined pre-tax profits of £11.1bn (£18.5bn) last year, up 5 per cent from 1996. Post-tax return on equity improved to 20.8 per cent from 20.4 per cent in 1996, but remained

below the peak of 21 per cent recorded in 1995.

The Bank said aggregate net interest rate margins narrowed to 2.72 per cent from 2.74 per cent in 1996, despite the helpful effect of five base rate increases on their interest-free deposit base and despite a shift in lending to higher margin unsecured personal loans.

Costs remained static, with falling staff numbers offsetting increased spending on IT systems. Bad debt provisions rose only slightly to an aggregate £1.9bn, equivalent to 0.39 per cent of total lending.

The report said that UK banks' exposure to the problems of south-east Asia remained relatively modest. However, supervisors expressed greater concern about Asian-owned banks with operations in London.

"As collapsing exchange rates and increasing domestic interest rates began to affect the quality of the banks' loan portfolios, their capital (which may already have been weak) was further impaired and their liquidity tightened."

The Bank said it imposed "certain informal restrictions" last year on the activities of several banks, many of which were "upon banks with exposures to regions affected by economic turbulence". Mr Foot refused to comment, however, on whether these restrictions specifically affected Asian banks.

Attraction of inward investment starts to fade

Clamour grows for switch to home-grown regeneration of vulnerable regions,
Juliette Jowit and James Buxton report

When Ron Davies, chief minister for Wales, pledged last week that local businesses would take priority over inward investors, he was responding to a debate which has echoes in Scotland and implications for English regions.

Many face the same issue: as investment from Asia falls and competition from eastern Europe grows, the next phase of regeneration may have to be driven by home-grown companies.

The debate in Wales is sharp because in spite of success in attracting investors from outside the UK, it still has some of the worst unemployment blackspots and below-average wages.

John Ball, an economist at Swansea Business School in south-west Wales, claims past policy has made Wales dependent on low-skill, low-wage jobs. Compared with more than 240,000 (£67,000) a job granted in subsidy to the Korean electronics company LG, he believes indigenous companies are a foundation for the economy as locally-based companies.

With Korea's Hyundai putting on hold its semiconductor plant in Scotland, and Mitsubishi Electric closing its television plant there, supporters of inward investment have become defensive.

Brian Wilson, Scottish Development Agency's director of business development in charge of the £25m budget for local services, denies there has been neglect but says more is being done.

Some argue that, with only 7.7 per cent of the workforce employed by non-UK companies, the figures are still disproportionate. But what really distorts the pic-

ture is grants. Compared with aid packages such as the £247m for LG, the figures attracted by indigenous businesses hardly register.

Brian Willott, WDA chief executive, says it is unfair to compare one-off projects with continuing small-scale support for local companies. In the past year, he says, the business development division helped 1,500 Welsh companies win a record £25m of business, as well as £16m in potential contracts.

In Scotland, there was anger among the workforce last week when Lite-On, the Taiwanese manufacturer of computer monitors, announced it was making 230 of its 350 employees redundant at Mossend in central Scotland.

The plant opened a year ago and Lite-On had talked of 1,000 jobs within two years. It re-opened debate on whether inward investment was as stable a foundation for the economy as locally-based companies.

With Korea's Hyundai putting on hold its semiconductor plant in Scotland, and Mitsubishi Electric closing its television plant there, supporters of inward investment have become defensive.

Brian Wilson, Scottish Development Agency's director of business development in charge of the £25m budget for local services, denies there has been neglect but says more is being done.

In spite of setbacks, announcements about plans for factories with non-UK owners continue, the two most recent being from Taiwanese companies. About 80,000 people work for non-UK-owned manufacturing



Manufacturing output



Above: the west Wales factory of US group 3M, where productivity of a foam tape has been increased.

Below: sources of UK manufacturing output

Wales News & Pictures

Companies - 4 per cent of the total workforce and 28 per cent of all manufacturing staff.

Scottish Enterprise, the development agency, is in a difficult position when people complain about the supposed deficiencies of inward investment. Ministers find it "nifty," as Crawford Beveridge, chief

executive, put it, in announcing projects to create hundreds of jobs. But only 15 per cent of its £275m budget is spent on inward investment compared with 40-50 per cent on indigenous companies.

The big spending on inward investors is made by the UK government's Scottish Enterprise Department. In the five years to 1996 it

handed out £480m in regional selective assistance. Of this, £210m went to local companies. Mr Wilson said he would welcome more grant applications: "Sadly, it is a myth that there is a long queue of frustrated indigenous companies being denied support."

Additional reporting by Brian Groom

Rover prepares to boost output

By John Griffiths in London

The Rover group, owned by BMW, is starting to recruit 1,000 production workers to work on the executive saloon, code-named R40, which will replace its 600 and 800 ranges.

Much of the R40's output will be exported, with Germany expected to take more units than previous Rover executive models.

The car will also launch a renewed sales drive in Latin America.

Rover is investing £400m in the R40, its first new car since the company was taken over by BMW four years ago. The car will be unveiled at the International Motor Show near Birmingham in October.

Rover is creating the

capacity to build 160,000 cars a year at Cowley, near Oxford - almost double the plant's combined output of the 600 and 800 models at their respective peaks.

The extra jobs will take Rover's workforce over the 40,000 mark for the first time in nine years.

Rover has spent £260m to create a "factory within a factory" at Cowley to build the R40.

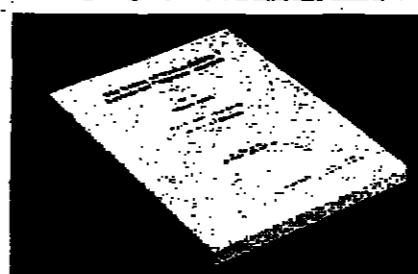
The Cowley facility, and the engineering of the vehicle, reflect manufacturing and quality standards introduced by BMW.

Nevertheless the new car will represent the modern face of Rover and the excellence of British design", said Walter Hasselkus, Rover's chairman and chief executive.

The marketing group has still to persuade Imperial College and University College, London's two largest institutions, to sign. Mr Edmundson said they were hesitating because they felt "less universities of London and more universities who happen to be in London".

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FINANCIAL TIMES

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London's colleges seek more overseas students

By Simon Targett,
Education Correspondent

London's elite "ivy league" universities yesterday launched a joint marketing venture with other colleges in the capital to boost the city's share of the international market for students from outside the UK and the domestic market for research contracts.

The London School of Economics and King's College London - in the top 10 of the Financial Times's survey of Britain's best universities - have set up a promotional body with 14 other institutions including the "new" universities of East London, Greenwich and Westminster.

The initiative, which is backed by business, signals a new spirit of collaboration after years of rivalry. The new body, Learning in London, is to run under the auspices of London First, the business campaign group which boasts 300 corporate members including Barclays Bank, British Airways, British Telecommunications and Ernst & Young. The work of the group has taken on a new urgency following the Asian financial crisis, which is expected to hit student recruitment this year.

New research published by the group shows that London attracts 45,000 overseas students - 15 per cent of London's student body and around 20 per cent of all the UK's students from other countries. There are plans to boost the number of students taking masters' and doctoral degrees especially in core specialities such as law, economics, social and political science, and engineering and technology.

John Edmundson, director of the marketing group, said the role of the LSE and the old university colleges was crucial, giving the project "respectability".

Frank Gould, vice-chancellor of the University of East London, said an earlier attempt to link up, when vice-chancellors met once a term to discuss common problems, "got nowhere". He said the new venture showed London's need to market itself as it faced growing competition from big European and US cities.

The marketing group has still to persuade Imperial College and University College, London's two largest institutions, to sign. Mr Edmundson said they were hesitating because they felt "less universities of London and more universities who happen to be in London".

SPY CLOUT

CINEMA

Messing about with the blues

The *Blues Brothers* opened in 1980 to generally unfavourable reviews and a poor commercial showing. In the early days of video, it had certain key ingredients that helped it shift from the status of a damp box-office squib to become a modern cult classic. The screenplay was just this side of chaotic, with occasional bon mots and one famous knockout speech which concludes "... it's dark and we're wearing sunglasses. Hit it!"

There were two central low-life characters with their iconic and easily imitable dress, played by Dan Aykroyd and John Belushi, then the hottest comic actor in America. Perhaps most important of all was the superb soundtrack performed by Aretha Franklin, Ray Charles and James Brown among others. Aykroyd and Belushi shared their characters' enthusiasm on their mission to restore black music to its rightful place at the heart of American popular culture. All this was played out against a frenetic background of conspicuous budgetary excess, with endless car-chases, explosions and absurdly over-blown pile-ups.

Eighteen years on, the dire *The Blues Brothers 2000* is not so much a belated as a redundant sequel. It is dedicated to Belushi, Cab Calloway and John Candy, three stars of the original who had the good sense to be before having to appear in this messy film. Belushi has certainly never been more keenly missed than here, and is replaced by not one but three new brothers: another fat man (John Goodman), a black man (Joe Morton) and, in an unforgivably sentimental touch, a kid (J. Evan Bonifant). This suggests that Aykroyd and co-writer/director John Landis just couldn't make up their minds which option to go for, and chose all three. They have also opted for the modern, playing-safe version of the sequel - the virtual re-make. So they have rounded up as many of the original cast as



Redundant sequel: John Landis's *The Blues Brothers 2000* is to be avoided by those with fond memories of the original

possible and replicated *The Blues Brothers* almost scene-for-scene. To make up for the film's shortcomings, many famous musicians have been recruited, and some of the musical set-pieces are rather good - notably Sam Moore's gospel song and James Brown's version of "Please, Please, Please". But none of these is enough to justify a visit, especially by those who have fond memories of the original.

* Director Tom DiCillo made a promising debut with *Johnny Suede* but by his third effort, *Box of Moonlight*, his trademark quirkiness was looking a little strained. With his new film *The Real Blonde*, he has gone off the tracks altogether. Joe (Matthew Modine), and Mary (DiCillo regular Catherine Keener), are an urban couple in their thirties who have been together for six years and don't know whether they are fully committed to one another. Joe is a successful make-up artist in the fashion world. This film clearly owes a lot to the work of Robert Altman in his ensemble cast (Buck Henry, Kathleen Turner, Christopher Lloyd, Denis Leary) and interweaving plot strands. Unfortunately it most

closely resembles Altman's dismal *Prêt-à-Porter* in its lame and unnecessary satire on both the fashion and entertainment industries. Among the running gags are scenes from the soap opera *Passion Crest*, featuring Bob (Maxwell Caulfield) and Kelly (Daryl Hannah). That DiCillo

arrives in Paris on a working visit from Algiers. He has lost the address of the man from whom he is collecting a suitcase so, speaking only awkward, comical French, he seeks shelter from his cousin Moli (Miss Hattou). Moli is a near-delusional fantasist, Albie an innocent dreamer and, through their dull picaresque adventures the film makes trite observations on racism, love and the desperation of the dispossessed. The proceedings are lent an incidental lighter touch by the eccentric subtitles. *

Guy at least opens rather well. Various pedestrians at an LA cross-roads stop and stare into the roving hand-held camera. It is a *Naked City* idea, suggesting that the film could be about anyone on whom the camera alights. It transpires that the camera is being wielded by a nameless female documentary film-maker and the subject for her new, highly intrusive film is Guy Dade (Vincent D'Onofrio). Guy, a specialist car-dealer, initially reluctant, soon becomes obsessed with both camera and director. This must have seemed such an enticing project in preparation. Dealing with the meatily cinematic subject of dangerous, erotic voy-

eurism, this is a first screenplay by Kirby Dick, responsible for the remarkable documentary *Sick*, and directed by the Beatles' occasional collaborator, Michael Lindsay-Hogg. But the film is pretentious and laughable almost from the beginning. At one stage Guy protests: "It's ridiculous! Why would anyone want to see a film about me?" This is a question that the film crucially fails to address.

The makers of *Star Kid* signal their cine-literacy early on when the sympathetic high-school science teacher introduces the film's hero, 12-year-old Spencer (Joseph Marzello) to her pet spider, Leo G. He is named after Leo G. Carrol, the star of the classic B-horror movie *Tarantula*, and this is just the first of a simple tale's many cinematic borrowings and references. The main inspiration is *ET*, as lonely Spencer forms a bond with an intelligent, seven-foot tall Cyborg from the planet *Trekli*, which he wears in order to ward off an alien assault. This is reasonably brisk and should have enough inventiveness to keep the pre-teens amused.

Karl French

THE BLUES BROTHERS 2000
John Landis

THE REAL BLONDE
Tom DiCillo

SALUT COUSIN!
Merzak Allouche

GUY
Michael Lindsay-Hogg

asked these two wooden performers to act deliberately badly in this programme-within-the-film is suggestive of a courageous, if not particularly astute, director.

Anyone expecting *Salut Cousin!* to shed some light on Algerians at home and in exile in France will be disappointed by this film, which ends up saying very little. Albie (Gad Elmaleh) is a bumbling young man who

A good-time show which fails the brazen seduction test

MUSICAL

IAN SHUTTLEWORTH

Sweet Charity
Victoria Palace, London SW1

The audiences at West End musical opening nights so want to be wowed, bless them. So, in the opening minutes of *Sweet Charity* on Tuesday, their responses seemed to run: "Hey, these girls can stand on a revolve without falling over" - wild applause! "Hey, it's Bonnie Langford's bum" - wild applause! "Hey, her lover's just pushed her into Central Park Lake" - applause just that worrying bit too wild...

Langford carries a huge burden as the ever-eager dance hall hostess in this revival of Bob Fosse's musical, and no-one can be more conscious than she of the cruel stigma of simply being Bonnie Langford, and of being her for so long: not really matron dressed as lamb (despite sporting

facial makeup of an almost Garland/Minnelli-like thickness), she is more lamb than has spent an age in the window display.

She has energy, discipline and far more than her fair share of talent - anyone who can execute a routine such as that for "I'm A Brass Band" and then slip effortlessly back into song is blessed with both ability and peak physical condition - but all those years as the postbox-smiling little girl have left her mark, and at root she finds herself unable to move too far from this mode.

Sure, she has *Charity* Hope Valentine's starry-eyed, bouncy indefatigability down pat, but *Charity* is also tempting and alluring; when her neurotic new beau Oscar (Cornell John), met in a trapped lift, describes her as a "postural virgin", it must seem the height of delusion.

But Langford - for all that she wiggles her equatorial and southern regions at us, for all that she tries brazen seduction on ageing Latin heart-throb Vito

(Mark Wynter) - cannot come over as remotely sinful. This problem affects the show as a whole. To put it bluntly, one should not be able to watch so much of Bob Fosse's choreography without feeling at all embarrassedly aroused. Chet Walker has a fine company make all the right moves with impressive vigour and precision, but not even the tax-dancers' flaunting of themselves in "Big Spender" (a number which ought to combine sheer desperation with efficient anticlimax) begins to register.

It is an admirable show - Cy Coleman's songs and Neil Simon's book alone would see to that - but, for all Walker's and director Carol Metcalf's efforts, for all that Johanne Murdock and (particularly) Jane Fowler match Langford for energy, it is not at all as seductive as it should be.

This is a good-time show, sure enough, but not with the double-bass of entendre that the "Big Spender" girls want us to believe.



Starry-eyed but not remotely sinful: Bonnie Langford as Charity

INTERNATIONAL Arts Guide

AMSTERDAM

CONCERTS

Philharmonie

Tel: 49-30-2548 8354
Berlin Philharmonic Orchestra: conducted by Bernard Haitink in works by Bartók and Brahms. With soloist András Schiff; May 23, 24, 25

BERLIN

CONCERTS

Philharmonie

Tel: 49-30-2548 8354
Berlin Philharmonic Orchestra: conducted by Bernard Haitink in works by Bartók and Brahms. With soloist András Schiff; May 23, 24, 25

BRUSSELS

OPERA

La Monnaie

Tel: 32-2-229 1211

Il Ritorno d'Ulisse in patria: new production conducted by Philippe Pierlot in a staging by William Kentridge. With the Handspan Puppet Company,

at the Luminætheater; May 22
● L'Orfeo: by Monteverdi. New production conducted by René Jacobs and directed and choreographed by Trisha Brown, with designs by Roland Asschmann; May 21, 22, 23

CHICAGO

CONCERTS

Orchestra Hall

Tel: 7-312-294-3000

www.chicagosymphony.org

● Chicago Symphony Orchestra: conducted by Daniel Barenboim in Beethoven's Symphonies Nos. 3 and 4; May 22, 23

● Chicago Symphony Orchestra: conducted by Daniel Barenboim in a concert performance of Fidelio. With the Chicago Symphony Chorus; May 22

EXHIBITION

Art Institute of Chicago

Tel: 312-443 3600

www.artic.edu

Songs on Stone: James McNeill Whistler and the Art of Lithography. Around 200 works by the American expatriate, including drawings, etchings and prints, which demonstrate the importance of lithography to his art and theory; to Aug 30, then transferring to Ottawa

CHICAGO

CONCERTS

Orchestra Hall

Tel: 312-294-3000

www.chicagosymphony.org

● Le Comte Ory: by Rossini. New production conducted by Roberto Abbado in a staging by Lorenzo

FLORENCE

OPERA

Maggio Musicale Fiorentino

Tel: 39-55-21158

www.maggiofiorentino.com

● Le Comte Ory: by Rossini. New production conducted by Roberto

Abbado in a staging by Lorenzo

LONDON

CONCERTS

Royal Festival Hall

Tel: 44-171-960 4242

The Royal Opera's Die ägyptische Helena, by Strauss. Concert performance, conducted by Christian Thielemann. Cast

LOS ANGELES

CONCERT

Dorothy Chandler Pavilion

Tel: 213-365 3500

City of Birmingham Symphony Orchestra: Sir Simon Rattle conducts works by Koussevitsky and Mahler; May 21

MÜNICH

CONCERT

Philharmonie Gasteig

Tel: 49-89-5481 8181

Ivo Pogorelich: recital by the pianist of works by Rachmaninov, Granados, Prokofiev and Chopin; May 25

OPERA

Bayerische Staatsoper

Tel: 49-89-2185 1920

The Midsummer Marriage: by Michael Tippett. Mark Elder conducts a production staged by Richard Jones, with a cast including Alison Hagley and Philip Langridge; to May 22

HELSINKI

OPERA

Finnish National Opera

Tel: 358-9-4090 2211

The Magic Flute: by Mozart. New production by Swedish director Etienne Glaser, designed by Peter Tilberg; May 21, 23, 25

CONCERT

Royal Concert Hall

Tel: 358-9-4090 2211

The Magic Flute: by Mozart. New production by Swedish director Etienne Glaser, designed by Peter Tilberg; May 21, 23, 25

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The Magic Flute: by Mozart. New production by Swedish director Etienne Glaser, designed by Peter Tilberg; May 21, 23, 25

CONCERT

Royal Concert Hall

COMMENT & ANALYSIS

Shadows close in on the puppeteer

Domestic and international pressures on the Indonesian president are growing, writes Sander Thoenes

The streets of the Indonesian capital were comparatively peaceful yesterday. But under the surface the country's two main problems are entirely unresolved. Both are sources of potentially profound instability.

The first is the deep difference of opinion between the student protesters and the Indonesian ruling élite about the form and timing of any transitional government to succeed President Suharto. Some in the élite want a new general election, followed by a vote in the assembly for a new president. That would take months. The students want Mr Suharto to go now.

The second source of instability is the economy. Already unstable, it has been sent almost into free fall by the past two weeks of upheaval. The distribution channels for food and wage payments appear to be setting up following the destruction of many shops and disruption of the distribution network in last week's riots. Food shortages and wage disruptions look likely. The \$43bn assistance programme of the International Monetary Fund appears to be in ruins. It seems almost inconceivable that the present government will get any more assistance and it is an open question whether a transitional government, even if it were set up, would be able to get enough money in the coming weeks and months to avoid food shortages and/or flight of what capital remains in the country.

In these circumstances, yesterday's peace could be shattered at any time. The country remains profoundly unpredictable and the optimistic notion that Mr Suharto has bought himself

a few weeks or months in which to control an ordered transition to the candidate of his choice may suddenly prove unfounded.

That is not to say that his promise to step down after new elections was, as some have argued, a gesture that changes nothing. On Tuesday, he promised on live television to reform the electoral system and hold elections to a new assembly "as soon as possible". The new parliament, along with 500 appointees to the assembly, would then pick another leader. "I will not run for president again," he said.

Because he mentioned no dates, some people wondered whether he was merely trying to find a way to cling on to power, perhaps even until his current term in office runs out in 2003.

"He's just buying time," said Noni, a woman student at the parliament. "We want him to step down now. No more tricks."

The idea that he is trying to cling on gained some credence when it became clear that the military was prepared to crack down hard on protesters, if necessary. "Somebody told me, who happens to be an army general, that he doesn't care at all if... an accident like Tuananant will take place today," said Amien Rais, the Moslem academic who has emerged in the past two weeks as Mr Suharto's most dynamic opponent. A shaken Mr Rais called off a planned student march in Jakarta, hence yesterday's quiet.

In these circumstances, yesterday's peace could be shattered at any time. The country remains profoundly unpredictable and the optimistic notion that Mr Suharto has bought himself



All the same, the offer to resign has made a difference, in that much of Indonesia's ruling élite, including members of the military and some Moslem leaders, seem to have decided to take the president at his word. They want him to implement the political change - setting up a new Reform Council that includes some of his critics - and then to resign. Members of the ruling Golkar party, and the speaker of parliament, Mr Harmoko, have put him on notice.

"We cannot force our will so we should compromise," said Yusri Indra Mahendra, a professor who met Mr Suharto on Tuesday, along with eight other Moslem leaders.

On top of the domestic pressure to go, Mr Suharto also faces strong international pressure to stick by his promises. With the US government saying he should go, the chances of continued credits from the IMF and other lenders are slim unless he proceeds rapidly with general elections and revives economic reforms.

Such a course would

clearly not be enough for the students. "Whatever he says, the people don't trust him any more," says Eros Djajat, an editor whose magazine was shut down on Mr Suharto's orders in 1994. "How can someone who is at the heart of the problem solve the problem? It is now Suharto against the people." But it does at least mean that one of the world's longest running governments is coming to an end.

A few months ago, that might have counted as good news, because it then seemed possible for the

regime to arrange an orderly transfer of power. No longer. Succession procedures are vague: Mr Suharto has picked a vice-president, B.J. Habibie, whom many people feel is even worse than he is, and there is no single dominant leader among the opposition.

Worse still, time is running out. The transition proposed by Mr Suharto would take up to a year. The general election is unlikely to be held before the autumn and the presidential election would probably take place after that, perhaps next

spring. Juwono Sudarsono, environment minister, has said Mr Suharto could step down by the end of the year. Long before any of that could happen, Mr Suharto could be impeached. The opposition has persuaded the speaker of parliament and the leaders of all the four factions in parliament to push for his resignation. If they stick by their guns, they would then call a special session of the People's Consultative Assembly that elected the president for a seventh term in March to impeach Mr Suharto and choose a new president.

It is far from clear whom they would choose. Mr Rais may be the most popular opposition leader, but that is by default. He is distrusted by some in the opposition and is feared by many business people, not least for anti-Chinese comments in the past. The assembly is dominated by Mr Suharto's cronies, employees and even his children: if they dare go against his will at all, they are more likely to opt for General Wiranto, chief commander of the armed forces, or Try Sutrisno, the former vice-president.

That degree of uncertainty looks bad. But at least - if this is the upshot - it might be resolved within a few weeks. And speed is now essential.

The reason is the economy is deteriorating alarmingly. Output was always going to fall this year, because of the currency and banking crises last year. In April, the IMF

forces, where the ties remain relatively close. The US dispatched Admiral Joseph Prueher, commander of its Pacific forces, to Jakarta to urge the military to show restraint in dealing with protesters. In the event, he had to turn back because of the riots.

These military links are likely to remain critical whatever Mr Suharto's decisions in the days ahead. "The military may be part of the problem," says the US official. "But for sure, they're also part of the solution."

Superpower reduced to shouting from the sidelines

Foreign policy drift has left the US without the means significantly to influence Indonesia's crisis, says Stephen Fidler

Madeleine Albright, the US secretary of state, yesterday called on Indonesia's President Suharto to step down but America's ability to influence events in that country remains severely limited. As one official put it: "This is not the Philippines [where the US told President Ferdinand Marcos to go] and it's certainly not Panama [where the US overthrew Manuel Noriega]."

US influence in Indonesia was never as great as in these two countries. But some

analysts say the drift of US foreign policy during the 1990s, as Congress has struggled to wrest the initiative in many areas from the executive, has further lessened the leverage Washington enjoys in the fourth most populous country in the world.

Indonesia contains more Moslems than the entire Middle East. Its importance to

the US has been seen mainly as an economic and strategic counterweight to China and as the key to the Association of South East Asian Nations, a loose regional economic grouping of 500m people.

Keeping the shipping lanes of this sprawling archipelago of 13,000 islands open and free from piracy is regarded as important to world trade.

But, says Robert Manning

of the Council on Foreign Relations, a former policy adviser to the state department, the ability of the US to engage Indonesia has been severely constrained by human rights concerns in Congress over East Timor, the neighbour it seized in 1975.

"US policy towards a country of more than 200m people has been driven by concerns about 500,000 of them, is this any way for a great power to conduct its affairs?"

He says, for example, that in the early 1990s Indonesia was offered F-16 fighter aircraft bought by Pakistan but not delivered because Congress blocked their sale.

The offer then had to be withdrawn because of Congressional disquiet.

He points out that the US

is to Mr Marcos allowed the Americans to play an important role in encouraging him to leave the country and settle in Hawaii, securing a peaceful transition towards democracy. But there is no close link with Mr Suharto, and the US is left with a limited ability to influence events.

Nonetheless, the US has two levers. The first is

economic. The \$43bn (\$26bn) rescue package led by the International Monetary Fund is effectively dead now the US has withdrawn support for Mr Suharto. But a fresh package will be negotiated after a new government takes control, and the possibility of US financial aid is a carrot to dangle before it.

The other levers are through the two countries' armed

LETTERS TO THE EDITOR

Key Microsoft question is whether it profits from ideas of others

From Mr Walter Stannen

Sir, Your leader, "Microsoft besieged", and leader page article, "Government vs Big Business" (May 19), seem to me to omit a main element in the Microsoft antitrust picture. The leader says it is not obvious that the consumer suffers from Microsoft's attempt to squeeze out Netscape and that there is nothing to prevent anyone with a superior product winning back market share. The article quotes a similar view: "This is not a capital intensive industry, it is ideas and the human intellect. Nobody has a monopoly on that, least of all Microsoft."

Microsoft's success, however, is not based essentially on ideas and intellect but on the well-known history of accidents involving the IBM PC. A principal source of its income is the licensing of the PC operating system to computer manufacturers and individual users.

Microsoft's success, however, is not based essentially on ideas and intellect but on the well-known history of accidents involving the IBM PC. A principal source of its income is the licensing of the PC operating system to computer manufacturers and individual users.

If Apple or Netscape, say, has a good idea, it cannot be patented. Anyone with sufficient programming resources can mimic the new

product. No ideas or intellect are necessary for that, only the assured revenue stream Microsoft has.

The prime question then is whether Microsoft will please the customer, or stifle new ideas, but whether, because of its accidental quasi-monopolistic position, it can mimic and profit from the ideas of others, and reward those others of reward.

And, if unchecked, then of course there would eventually be a drying up of ideas too. The quotation from the regulator then seems abundantly justified: "We should stop companies using their market power to basically tip the playing field in their direction."

Walter Stannen, 495 Fen End, Over, Cambridge CB4 5NE, UK

From Mr Bruce Page

Sir, There is much talk of "innovation" in the context of the US Justice Department's antitrust suit against Microsoft. Making a proper list of computing innovations from Microsoft?

Bruce Page, 32 Lauderdale Tower, London EC2Y 8BY, UK

Magnet for corruption

From Mr Patrick J. Wye

Sir, The discussion of debt relief in your letters column (May 15) should not ignore the ever-present element of corruption that led to the debt in the first place. Without determined efforts by debtor countries to rule out the misuse of loans and aid funds, any relief will be required again in future years.

The flow of funds through state hands is a magnet for corruption that can start even at the point of conversion. It is a sad fact that the candidates for debt relief are also candidates for the marketing of private banking services. Many such countries would not require debt relief if their leaders repatriated the contents of offshore bank accounts.

Patrick J. Wye, 1619 Valecroft Avenue, Westlake Village, California 91361, US

A better use of talents

From Mr David Kinnersley

Sir, India has plenty of local talent. It is one of the few countries where WaterAid does not use expatriate staff to manage its projects with local partners.

Yet anecdotal evidence says that there is hardly a municipal water supply in this vast country that operates reliably and consistently for its users 24 hours a day.

Improving the situation, and adding much more sanitation service and health education, would be a much better show of India's talents than making bombs.

With their nuclear tests they are shutting doors that they need to keep open.

David Kinnersley, WaterAid council member, 111 Church Street, Chesham, Bucks HP5 1JD, UK

Representation must not swamp WTO

From Mr John Raven

Sir, The call by President Clinton for a new business, labour, environmental and consumer forum to confer with the World Trade Organisation ("Clinton urges new, faster trade round", May 19) may be sound in principle but will need careful handling in practice.

Much business representation is still carried on by what are essentially 19th century associations and federations, acting in isolation and dependent on formal committees, meeting at infrequent intervals.

There are numerous international bodies, including our own, reflecting the views and the interests of service sectors, but there are hardly any similar organisations for our customers in

manufacturing and trading sectors.

Real power and propulsion behind world trade, which is what the WTO surely needs to access, lies mainly with a small number of chief executives who tend to delegate service on trade organisations to less occupied adjutants.

The general impression is that global commerce will need to review and reform its representative resources if it is not to swamp and clog essential WTO activity with what could be overlapping, if not competing, claims for the organisation's consultative attention.

The International Chamber of Commerce might be a useful catalyst for representational reform, particularly if it could focus a consensual

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COMPANIES & MARKETS

THURSDAY MAY 21 1998

INSIDE

Kodak takes fight to Fuji with four-year investment in China

Kodak, the US photo-film maker, is investing \$1bn in China over the next four years in a gamble that the world's biggest potential market will help lift it out of the doldrums. The move also reveals a desire to take the fight to Fuji in what its Japanese rivals see as its own backyard. Page 16

Baht holds key to Bangkok bourse

The share price volatility of Thailand's finance companies following the government takeover of seven troubled financial institutions has investors looking elsewhere in the market may have a bigger concern - the baht. Though the baht has been stable at just under Ba40 to the US dollar recently, many economists believe it may slip closer to Ba50 to the dollar. Page 38

China develops thirst for coffee

Thousands of cafes have opened in Beijing and the taste for cappuccino has become a mark of cosmopolitan culture. Though a devout tea-drinking society, the fashion for coffee in prosperous urban areas has been enough to multiply the coffee business in China several times over. Page 25

Malaysian banks damaged by crisis

The Malaysian financial crisis has been especially damaging to banks. The financial sector is burdened by domestic loans equivalent to 170 per cent of gross domestic product. Many financial institutions have set aside large provisions, dragging down their bottom lines. Page 16

Four European markets hit records

Europe cruised into the Ascension Day holiday in buoyant mood with bourses in Brussels, Frankfurt, Paris and Vienna recording all-time highs. Page 25

Car parts makers face consolidation

Suppliers of car components say Chrysler's merger with Daimler-Benz will trigger further consolidation in the sector. Many suppliers are under cost pressures as carmakers slash purchasing budgets and some manufacturers say the deal is set to make life harder. Page 21

Bulgaria set to launch eurobond

Bulgaria is gearing up to launch its inaugural eurobond, which is expected to have a five year maturity and raise \$250m-\$300m. The issue was originally planned for last autumn but delayed in the aftermath of the Asian crisis. Page 26

Wider trade gap pushes dollar lower

An unexpectedly big US trade deficit pushed the dollar lower against the D-mark, while the Japanese yen took comfort from the uneasy calm following violent protests in Indonesia. Page 27

COMPANIES IN THIS ISSUE

ABN Amro	18,20	Inco	21
AB	20	Inmet	21
AT&T	22	Investic	24
Adam Opel	18	Iridium	24
Agfa	16	Itochu	25
Airbus	6	KLM	25
Amoco	18	Kirch	25
American Airlines	6	Kodak	25
Arthur Andersen	15	Kyocera	22
BMW	10	LG	21
BPH	20	Leer	21
BRE	20	Lockheed Martin	23
BT	22	Lucent Technologies	23
Banco de Napoli	20	Lufthansa	6
Bank of New York	15	Matsushita	22
Bear Stearns	18	Mannesmann	22
Bertelsmann	20	Marubeni	22
BIG	22	Matsushita	22
Boeing	6	Mellon Bank	21
British Airways	5	MetroNet Comms	13
British Biotech	23	Microsoft	13
CLT-Uta	20	Mingley	15
Canal Plus	4,18	Mitsubishi	15
Cap Gemini	9	Mitsui	6
Carlton Comms	23	Mons	22
Cheung Kong	22	National Power	22
Christiansen	22	Nestlé	22
Chrysler	21	Nippon Life	22
Citizen	22	Nissan	22
Clear Channel	23	Northwest Airlines	22
Coca-Cola Beverages	23	PT Tambang Timah	22
Commerzbank	18	Pelco SA	22
Computer Associates	15,21	PolyGram	18
Coopers & Lybrand	15	Price Waterhouse	24
Credit Lyonnais	15,20	Procter & Gamble	24
Dawco	6	RWE	16
Daimler-Benz	21	Rashid Hussain	16
Daimler-Benz A'space	6	Ricoh	22
Dana	21	Rio Tinto	22
Decaux	23	Robert Bosch	21
Dell Computer	21	Rogers Comm	21
Deutsche Bank	9	SAS	20
DnB	20	SE-Banken	18
ENI	18	Seagram	18
EON	16	Siemens Automotive	16
Etran	16	Sime Bank	16
Eric	4	Sing Tel Holdings	16
Federal Home Loan	25	SmartOne	18
Federal-Mogul	22	Smitco	16
Fiat	18	Sumitomo	16
Freight McRae	22	Sun Hung Kai	22
Fuji	16	Tanjong	26
Goya	6	Telefónica	26
General Motors	18,21	Toyota	21
Golden Hope Plants	15	Toyota R Us	21
Goldman Sachs	18	United Airlines	21
Henderson Land	22	Veolia	21
Honda	22	Viac	20
Hyundai	6,10	WBK	20
IMG	4	Wheat	20
ING Barings	22	Wheelseek	21
IT	18	Zomex	21

CROSSWORD, Page 28

MARKET STATISTICS

Annual reports club	32,33	Emerging Market Bonds	34
Benchmark Govt bonds	29	FTSE Actuaries share indices	24
Bond futures and options	29	Foreign exchange	27
Bond prices and yields	28	Gilt prices	28
Commodities prices	25	London share service	32,33
Dividends announced, UK	23	Managed funds service	29-31
EMS currency rates	22	Money markets	29
Euro prices	22	New Int'l bond issues	29
Eurobond prices	22	Recent issues, UK	34
Fed's interest rates	28	Short-term int'l rates	29
FTSE's World Indices	28	Stock markets at a glance	28
FTSE Gold Mines Index	34	US interest rates	28
		World stock markets	34

Week 21

BoNY withdraws \$24bn bid for Mellon

By William Lewis in New York

Bank of New York yesterday withdrew its \$24bn hostile offer for Mellon Bank of Pittsburgh, bringing to an end the largest-ever unsolicited bid for a bank in the US.

Amid a welter of claims and counter-claims, executives at BoNY, the US's oldest bank, attacked Mellon's management for refusing to meet them to discuss the offer, announced in April.

Mellon's refusal to meet with us and to have the opportunity for a constructive dialogue that would move this merger forward is inexplicable,"

Mr Cahonet added. "Your continued agitation is harmful to Mellon. It is time for you to live up to your public state-

ments, withdraw your offer and abandon permanently your hostile takeover efforts."

In April, Mellon had rejected BoNY's offer, which would have created the sixth largest US bank by market capitalisation and a global powerhouse in several investment management-related businesses. The merged bank would have been the largest custodian in the world and one of the largest fund managers with \$350bn under management.

BoNY's hostile approach was the latest twist in a long-run-

ning series of talks between the two banks. Negotiations in December are said to have broken down because of differences about who would run the combined company.

On Tuesday afternoon BoNY received a letter from Mr Cahonet and Mellon's board rejecting its request to make a presentation to them. Yesterday morning BoNY formally withdrew its offer.

BoNY also said yesterday that while it was "still available to engage in productive discussions" with Mellon,

"that is not likely to happen". It announced that it intends to resume its stock buy-back programme, which under US accounting rules makes it almost impossible to launch a merger of equals bid.

Nevertheless, BoNY stressed that it remained keen to join the wave of consolidation sweeping the financial services industry in the US. "We expect continued growth through acquisition," BoNY said.

Analysts said that the peculiar nature of the long-running talks between BoNY and Mellon share at \$20.

Lex, Page 14



The European Union's competition commissioner Karel Van Miert said yesterday that he hoped regulators would ensure there would be no repeat of the situation which led to Crédit Lyonnais' rescue. Picture: Reuters

which were being liquidated by the French authorities.

These included the disposal of FF760bn (\$11bn) of Crédit Lyonnais assets, as calculated in 1995. Mr Van Miert said the accumulated losses of Crédit Lyonnais were "at least FF100bn". The Commission had worked on the assumption that aid would total FF120bn, but "could go much further".

The Commission also imposed strict monitoring of the asset sales and said it would not hesitate to re-open

proceedings if the conditions were not met. "We have to be informed step by step," Mr Van Miert said.

"There should be no doubt the Commission will re-open an investigation if it feels the timetable or conditions are not respected."

Crédit Lyonnais' Belgian subsidiary would be sold this year. The sale of BIC, the German banking subsidiary, "could take longer", Mr Van Miert said but he said that "all

should be finished before October 1 1999".

Mr Strauss-Kahn told the French National Assembly yesterday: "Today everyone should know that Crédit Lyonnais is on its feet again; far from being garroted it is freed from the sword of Damocles that was weighing on its shoulders."

Lex, Page 14

End of uncertainty, Page 29

Arthur Andersen woos Coopers' Brazilian firm

By Jim Kelly in London

Arthur Andersen, the Big Six accountancy firm, is talking to the Brazil firm of Coopers & Lybrand in an attempt to woo it away from the planned \$10bn global merger with Price Waterhouse. It said yesterday it was in similar talks in Latin America, Europe and Asia.

The announcement of discussions with the Brazil firm came within hours of formal European Commission regulatory approval for the PW-Coopers' merger in spite of reservations about the state of the European audit market for large companies.

Andersen, which faces losing its global lead in the sector if the PW-Coopers merger goes ahead and is in a bitter dispute with its sister firm, Andersen Consulting, previously hinted it hoped to pick up a string of discontented firms from within PW and Coopers.

While losing Brazil would be a blow to the PW-Coopers merger, senior executives said they were confident about 85 per cent of member firms would merge on schedule on July 1 - with many of the rest following soon after.

"There are no deal-breakers around," said one London-based executive involved in the global merger discussions.

But Jim Wadia, Arthur Andersen's worldwide managing partner, after securing the Chilean practice of Coopers, is understood to be hopeful other large member firms will join his network. It is understood Andersen is in talks in Spain

and Sweden. He said: "We are holding discussions with several other Big Six member firms in Latin America, Europe and Asia/Pacific. They recognise the value of the Arthur Andersen brand and have expressed a desire to be aligned with our strong service reputation and growth plans."

Coopers' firm in Brazil employs 750 professional staff and about 45 partners and has annual revenues of \$60m. If it combines with Andersen, which has revenues of \$100m, it will be the largest firm in the country, according to Andersen.

The European Commission's clearances allows PW and Coopers to move forward to detailed planning for their merger, which would create the world's biggest professional services firm. Competitors hope to pick up staff and clients as sensitive issues such as the new firm's name, management structure and job allocation begin to surface.

The Commission said it had decided to clear the merger because it had no "conclusive proof" it would lead to market dominance, largely because it thought there would be enough competition in the new "Big Five" market. But there were clear dangers the audit market was prone to such dominance because of inherent problems in the profession - such as the fact that clients were "locked-in" to auditors because of the costs of switching firms and that firms were interlinked through professional self-regulation.

Large Japanese trading companies suffer in slump

By Louise Kubo in San Francisco and William Lewis in New York

Japan's economic slump has taken its toll on the country's large trading companies, which yesterday reported big downturns in their annual results.

Mitsubishi and Mitsui, the blue chips of Japanese trading companies, saw parent profits fall, while Marubeni and Itochu dropped into loss at the net level after valuation losses on their securities holdings.

Sumitomo managed to return to the black on the net level but saw recurring profits decline nearly 60 per cent.

The trading companies, which have businesses ranging from chemicals and instant noodles to machinery and satellites, warned that the continuing slump in the domestic market and the economic tur-

moil in Asia would put further pressure on their profits in the current year.

In particular, the sharp deterioration in the stock market has increased the valuation losses on the trading companies' holdings. Marubeni, for example, took an extraordinary loss of Y82.24bn, or \$634.5m, of which Y51.12bn is related to the valuation loss on

carmakers' recent profits, Page 22

MOL Magyar Olaj- és Gázipari Rt.

U.S. \$315,000,000

Global Offering of 11,046,887 Shares
in the form of Shares and Global Depositary Shares

COMPANIES & FINANCE: INTERNATIONAL

Kodak focuses on China for enlarged growth

With \$1bn of investment, involving the modernisation of an entire industry, the stakes are high, writes Tony Walker

George Fisher, chief executive of Kodak, does not give the impression of being a gambler, but in allocating a minimum of \$1bn to investment in China over the next four years he is betting that the world's biggest potential market will help lift his company out of the doldrums.

Mr Fisher, who moved to Kodak - based in Rochester, New York state - four years ago after conspicuous success as head of Motorola, also has his own reputation as a successful manager tied to his China strategy. For both Kodak - with faltering revenue growth in its home US market - and George Fisher, the stakes are high.

"I think that in 10 years you will find this is the most important thing Kodak has ever done," says Mr Fisher, whose own contract runs to 2000. But he also recognises it will take time for Kodak's China investments to bear fruit.

Kodak's China gambit - in which it is virtually assuming responsibility for modernising an entire industry - is a bold stroke and one that is being watched closely as a possible model by international investors in other sectors.

Driven by Mr Fisher's vision - following a request in 1994 by Zhu Rongji, then a vice-premier, for technical assistance - Kodak is aligning itself with a leading Chinese industry in a more comprehensive way than has been attempted before. However, the Kodak chief bristles at suggestions that the company is behaving more like an aid agency than a corporation hungry for profits.

Banks bear brunt of Malaysia's financial crisis

Debt burdens herald more poor reporting seasons ahead, writes Sheila McNulty

The Malaysian reporting season just ended has revealed that the financial crisis has been especially damaging to banking, construction and car companies but has left plantation companies relatively unscathed and actually boosted the lottery business.

The economic slowdown has particularly hit the financial sector, which is burdened by domestic loans equivalent to 170 per cent of gross domestic product - the highest ratio in south-east Asia.

As the economy has slowed, so has the repayment of loans. Economists predict that by the middle of next year almost one in four loans in Malaysia will be unpaid.

Such projections have financial institutions setting aside large provisions, which have dragged down their bottom lines.

The sector's worst results were reported by Sime Bank, which reported pre-tax losses of M\$1.6bn (US\$469m) for the six months to the end of December and was forced to set aside M\$1.6bn in provisions.

Sime Bank's losses were so considerable that the authorities said they would investigate and one of the country's top banking groups, Rashid Hussain, took over the institution.

Even Malayan Banking (Maybank), the country's biggest, strongest and most conservative financial institution, reported a 29 per cent drop in net profit to M\$463.5m for the six months to end-December. Maybank set aside M\$711.5m to cover its potential bad loans.

As the pressure has built on banks, they have curtailed lending, making it difficult to purchase vehicles. Car sales, which are expected to drop more than 60 per cent this year, began falling toward the end of 1997.

ION, which distributes the Proton "national car", reported a 5.5 per cent fall in profit to M\$429.3m for the year to end-December after car sales fell 84 per cent to 2,930 vehicles.



George Fisher: Kodak's chief executive has his reputation tied to the company's China strategy AP

describes the potential of a market where the annual usage rate of film is 0.4 of a roll for each household, compared with seven rolls in the US.

"If only half the people in China shot a single 36-exposure roll of film a year - a fraction of the usage rate of other countries - that would swell the number of worldwide 'clicks' by 25 per cent," he says. "Each second, 500 more photos would be taken. That's the equivalent of adding another US or Japan to the world photographic market. China offers more potential photography than any other market in the world."

But the allure of China is certain not to have been lost on Kodak's competitors, who are investing heavily. Both Fuji and Agfa have strong positions in the market, and Lucky, China's own leading brand, is modernising its facilities.

Kodak will have to fight all the way to grow market share. It also faces a tricky process of taking over state-run factories which tend to be overmanned and full of outdated equipment.

The task of imposing western management standards on Chinese enterprises is far from easy and has stymied attempts by other western companies to absorb local facilities.

However, Mr Fisher appears undaunted, while conceding that "execution", in which between 2,000 and

3,000 people will be added to Kodak's payroll, poses the biggest risk.

Indeed, he has been encouraged by Kodak's progress in China in the last three or four years, where it has moved from third to first place in sales of photographic paper, ahead of Agfa and Fuji, and, having lagged a distant second behind Fuji in film sales, is now challenging the Japanese company.

Revenues from China reached \$250m last year and sales are growing at about 40 per cent annually. Kodak has opened 3,600 "Kodak Express" stores across the country. Mr Fisher and Kodak are not hedging their bets on China. They can hardly afford to.

TMC Mortgage Securities No. 8 PLC

(the "Issuer")
(incorporated with limited liability under the laws of England and Wales)

Notice of a Meeting of the holders of the

£100,000,000 Mortgage Backed Floating Rate Notes due 2018

of the Issuer

(the "Noteholders" and the "Notes" respectively)

NOTICE IS HEREBY GIVEN that a Meeting of the Noteholders convened by the Issuer will be held at 65 Holborn Viaduct, London EC1A 2DY on Monday, June 15, 1998 at 10.00 a.m. (London time) for the purpose of considering and, if thought fit, passing the following Resolutions which will be proposed as Extraordinary Resolutions in accordance with the provisions of a trust deed dated July 15, 1998 made between the Issuer and The Chase Manhattan Bank, N.A., as trustee for the Noteholders (the "Trustee"), and constituting the Notes (the "Trust Deed").

The Issuer is intending, subject to the passing of the Extraordinary Resolutions, to redeem the Notes in full at 100 per cent, of their principal amount (plus accrued interest). The Issuer has not yet determined the intended redemption date. However, redemption will only occur on an interest payment date.

The Extraordinary Resolutions set out below, if duly passed, will approve the making of amendments to the terms and conditions of the Notes ("Conditions") and to the Trust Deed in order to facilitate the redemption of the Notes.

Resolution 1 provides for the deletion of the requirements relating to the principal amount of the Notes required to be outstanding at the time the Issuer exercises the option to redeem the Notes. The notice period to be given to the Trustee and the Noteholders is also amended.

Resolution 2 reduces the interest period of the Notes from 3 months to 1 month and makes consequential amendments to the Conditions.

Resolution 3 authorises the Trustee to agree amendments to the Trust Deed and other agreements to give effect to Resolution 1 and 2.

If the Extraordinary Resolutions are passed, it is anticipated that notice will be given to Noteholders of the redemption of the Notes on an interest payment date by publication in the Financial Times and the Luxembourg Wort and through Euromedia and Cetel at least 7 days before the date of the redemption.

The Issuer expresses no opinion on the merits of these proposals or the Extraordinary Resolutions contained in this Notice but has authorised it to be stated that it has no objection to the Resolutions being submitted to the Noteholders for their consideration.

EXTRAORDINARY RESOLUTIONS

"THAT the Meeting of the holders of the £100,000,000 Mortgage Backed Floating Rate Notes due 2018 (the "Notes") of TMC Mortgage Securities No. 8 PLC (the "Issuer") constituted by a trust deed dated July 15, 1998 and made between the Issuer and The Chase Manhattan Bank, N.A. (the "Trustee") (the "Trust Deed") hereby:

(1) Sanctions, approves and authorises the Issuer to make such changes to the terms and conditions of the Notes ("Conditions") by the deletion in its entirety of Condition 5(c) and its replacement with the following:

"On giving not less than 5 Business Days notice to the Noteholders the Issuer may, on any Interest Payment Date, redeem all (but not some only) of the Notes at their Principal Amount Outstanding together with interest accrued to the date of redemption (plus accrued interest) if a valid notice of redemption is given to the Issuer and the Trustee and the Trustee and the Noteholders is also amended.

Resolution 2 reduces the interest period of the Notes from 3 months to 1 month and makes consequential amendments to the Conditions.

Resolution 3 authorises the Trustee to agree amendments to the Trust Deed and other agreements to give effect to Resolution 1 and 2.

If the Extraordinary Resolutions are passed, it is anticipated that notice will be given to Noteholders of the redemption of the Notes on an interest payment date by publication in the Financial Times and the Luxembourg Wort and through Euromedia and Cetel at least 7 days before the date of the redemption.

In accordance with its normal practice, the Issuer expresses no opinion on the merits of these proposals or the Extraordinary Resolutions contained in this Notice but has authorised it to be stated that it has no objection to the Resolutions being submitted to the Noteholders for their consideration.

EXTRAORDINARY RESOLUTIONS

"THAT this Meeting of the holders of the £200,000,000 Mortgage Backed Floating Rate Notes due 2019 (the "Notes") of TMC Mortgage Securities No. 8 PLC (the "Issuer") constituted by a trust deed dated September 19, 1998 and made between the Issuer and The Chase Manhattan Bank, N.A. (the "Trustee") (the "Trust Deed"):

1. Sanctions and approves the modification and amendment of the terms and conditions of the Notes ("Conditions") by the deletion in its entirety of Condition 5(c) and its replacement with the following:

"On giving not less than 1 Business Days notice to the Noteholders the Issuer may, on any Interest Payment Date, redeem all (but not some only) of the Notes at their Principal Amount Outstanding together with interest accrued to the date of redemption (plus accrued interest) if a valid notice of redemption is given to the Issuer and the Trustee and the Trustee and the Noteholders is also amended.

Resolution 2 reduces the interest period of the Notes from 3 months to 1 month and makes consequential amendments to the Conditions.

Resolution 3 authorises the Trustee to agree amendments to the Trust Deed and other agreements to give effect to Resolution 1 and 2.

If the Extraordinary Resolutions are passed, it is anticipated that notice will be given to Noteholders of the redemption of the Notes on an interest payment date by publication in the Financial Times and the Luxembourg Wort and through Euromedia and Cetel at least 7 days before the date of the redemption.

In accordance with its normal practice, the Issuer expresses no opinion on the merits of these proposals or the Extraordinary Resolutions contained in this Notice but has authorised it to be stated that it has no objection to the Resolutions being submitted to the Noteholders for their consideration.

EXTRAORDINARY RESOLUTIONS

"THAT this Meeting of the Noteholders convened by the Issuer will be held at 65 Holborn Viaduct, London EC1A 2DY on Monday, June 15, 1998 at 10.00 a.m. (London time) for the purpose of considering and, if thought fit, passing the following Resolutions which will be proposed as Extraordinary Resolutions in accordance with the provisions of a trust deed dated July 15, 1998 made between the Issuer and The Chase Manhattan Bank, N.A., as trustee for the Noteholders (the "Trustee"), and constituting the Notes (the "Trust Deed").

The Issuer is intending, subject to the passing of the Extraordinary Resolutions, to redeem the Notes in full at 100 per cent, of their principal amount (plus accrued interest). The Issuer has not yet determined the intended redemption date. However, redemption will only occur on an interest payment date.

The Extraordinary Resolutions set out below, if duly passed, will approve the making of amendments to the terms and conditions of the Notes ("Conditions") and to the Trust Deed in order to facilitate the redemption of the Notes.

Resolution 1 provides for the deletion of the requirements relating to the principal amount of the Notes required to be outstanding at the time the Issuer exercises the option to redeem the Notes. The notice period to be given to the Trustee and the Noteholders is also amended.

Resolution 2 reduces the interest period of the Notes from 3 months to 1 month and makes consequential amendments to the Conditions.

Resolution 3 authorises the Trustee to agree amendments to the Trust Deed and other agreements to give effect to Resolution 1 and 2.

If the Extraordinary Resolutions are passed, it is anticipated that notice will be given to Noteholders of the redemption of the Notes on an interest payment date by publication in the Financial Times and the Luxembourg Wort and through Euromedia and Cetel at least 7 days before the date of the redemption.

In accordance with its normal practice, the Issuer expresses no opinion on the merits of these proposals or the Extraordinary Resolutions contained in this Notice but has authorised it to be stated that it has no objection to the Resolutions being submitted to the Noteholders for their consideration.

EXTRAORDINARY RESOLUTIONS

"THAT this Meeting of the Noteholders convened by the Issuer will be held at 65 Holborn Viaduct, London EC1A 2DY on Monday, June 15, 1998 at 10.00 a.m. (London time) for the purpose of considering and, if thought fit, passing the following Resolutions which will be proposed as Extraordinary Resolutions in accordance with the provisions of a trust deed dated July 15, 1998 made between the Issuer and The Chase Manhattan Bank, N.A., as trustee for the Noteholders (the "Trustee"), and constituting the Notes (the "Trust Deed").

The Issuer is intending, subject to the passing of the Extraordinary Resolutions, to redeem the Notes in full at 100 per cent, of their principal amount (plus accrued interest). The Issuer has not yet determined the intended redemption date. However, redemption will only occur on an interest payment date.

The Extraordinary Resolutions set out below, if duly passed, will approve the making of amendments to the terms and conditions of the Notes ("Conditions") and to the Trust Deed in order to facilitate the redemption of the Notes.

Resolution 1 provides for the deletion of the requirements relating to the principal amount of the Notes required to be outstanding at the time the Issuer exercises the option to redeem the Notes. The notice period to be given to the Trustee and the Noteholders is also amended.

Resolution 2 reduces the interest period of the Notes from 3 months to 1 month and makes consequential amendments to the Conditions.

Resolution 3 authorises the Trustee to agree amendments to the Trust Deed and other agreements to give effect to Resolution 1 and 2.

If the Extraordinary Resolutions are passed, it is anticipated that notice will be given to Noteholders of the redemption of the Notes on an interest payment date by publication in the Financial Times and the Luxembourg Wort and through Euromedia and Cetel at least 7 days before the date of the redemption.

In accordance with its normal practice, the Issuer expresses no opinion on the merits of these proposals or the Extraordinary Resolutions contained in this Notice but has authorised it to be stated that it has no objection to the Resolutions being submitted to the Noteholders for their consideration.

EXTRAORDINARY RESOLUTIONS

"THAT this Meeting of the Noteholders convened by the Issuer will be held at 65 Holborn Viaduct, London EC1A 2DY on Monday, June 15, 1998 at 10.00 a.m. (London time) for the purpose of considering and, if thought fit, passing the following Resolutions which will be proposed as Extraordinary Resolutions in accordance with the provisions of a trust deed dated July 15, 1998 made between the Issuer and The Chase Manhattan Bank, N.A., as trustee for the Noteholders (the "Trustee"), and constituting the Notes (the "Trust Deed").

The Issuer is intending, subject to the passing of the Extraordinary Resolutions, to redeem the Notes in full at 100 per cent, of their principal amount (plus accrued interest). The Issuer has not yet determined the intended redemption date. However, redemption will only occur on an interest payment date.

The Extraordinary Resolutions set out below, if duly passed, will approve the making of amendments to the terms and conditions of the Notes ("Conditions") and to the Trust Deed in order to facilitate the redemption of the Notes.

Resolution 1 provides for the deletion of the requirements relating to the principal amount of the Notes required to be outstanding at the time the Issuer exercises the option to redeem the Notes. The notice period to be given to the Trustee and the Noteholders is also amended.

Resolution 2 reduces the interest period of the Notes from 3 months to 1 month and makes consequential amendments to the Conditions.

Resolution 3 authorises the Trustee to agree amendments to the Trust Deed and other agreements to give effect to Resolution 1 and 2.

If the Extraordinary Resolutions are passed, it is anticipated that notice will be given to Noteholders of the redemption of the Notes on an interest payment date by publication in the Financial Times and the Luxembourg Wort and through Euromedia and Cetel at least 7 days before the date of the redemption.

In accordance with its normal practice, the Issuer expresses no opinion on the merits of these proposals or the Extraordinary Resolutions contained in this Notice but has authorised it to be stated that it has no objection to the Resolutions being submitted to the Noteholders for their consideration.

EXTRAORDINARY RESOLUTIONS

"THAT this Meeting of the Noteholders convened by the Issuer will be held at 65 Holborn Viaduct, London EC1A 2DY on Monday, June 15, 1998 at 10.00 a.m. (London time) for the purpose of considering and, if thought fit, passing the following Resolutions which will be proposed as Extraordinary Resolutions in accordance with the provisions of a trust deed dated July 15, 1998 made between the Issuer and The Chase Manhattan Bank, N.A., as trustee for the Noteholders (the "Trustee"), and constituting the Notes (the "Trust Deed").

The Issuer is intending, subject to the passing of the Extraordinary Resolutions, to redeem the Notes in full at 100 per cent, of their principal amount (plus accrued interest). The Issuer has not yet determined the intended redemption date. However, redemption will only occur on an interest payment date.

The Extraordinary Resolutions set out below, if duly passed, will approve the making of amendments to the terms and conditions of the Notes ("Conditions") and to the Trust Deed in order to facilitate the redemption of the Notes.

Resolution 1 provides for the deletion of the requirements relating to the principal amount of the Notes required to be outstanding at the time the Issuer exercises the option to redeem the Notes. The notice period to be given to the Trustee and the Noteholders is also amended.

Resolution 2 reduces the interest period of the Notes from 3 months to 1 month and makes consequential amendments to the Conditions.

Resolution 3 authorises the Trustee to agree amendments to the Trust Deed and other agreements to give effect to Resolution 1 and 2.

If the Extraordinary Resolutions are passed, it is anticipated that notice will be given to Noteholders of the redemption of the Notes on an interest payment date by publication in the Financial Times and the Luxembourg Wort and through Euromedia and Cetel at least 7 days before the date of the redemption.

In accordance with its normal practice, the Issuer expresses no

TMC P.I.M.B.S. First Financing PLC
(the "Issuer")

(Incorporated with limited liability under the laws of England and Wales)

NOTICE OF A MEETING

of the holders of the
£250,000,000 Mortgage Backed Floating
Rate Notes due 2029 of the Issuer
(the "Noteholders" and the "Notes" respectively)

NOTICE IS HEREBY GIVEN that a Meeting of the Noteholders convened by the Issuer will be held at 65 Holborn Viaduct, London EC1A 2DV on Monday, 15th June 1998 at 11.25am (London time) (or as soon thereafter as the meeting of the holders of TMC P.I.M.B.S. PLC notes concludes) for the purpose of considering and, if thought fit, passing the following Resolutions which will be proposed as Extraordinary Resolutions in accordance with the provisions of a trust deed dated 26th June 1989 made between, *inter alia*, the Issuer and Morgan Guaranty Trust Company of New York, London office, as trustee for the Noteholders (the "Trustee"), and constituting the Notes (the "Trust Deed" as amended by a supplemental trust deed dated 27th September 1989 made between the Issuer and the Trustee and a supplemental trust deed dated 6th December 1989 made between, *inter alia*, the Issuer and the Trustee (the "Supplemental Trust Deeds").

PROPOSAL

The Issuer is intending, subject to the passing of the Extraordinary Resolutions, to redeem the Notes in full at 100 per cent of their principal amount (plus accrued interest). The Issuer has not yet determined the intended redemption date. However, redemption will only occur on an interest payment date.

The Extraordinary Resolutions set out below, if duly passed, will approve the making of amendments to the terms and conditions of the Notes (the "Conditions") and to the Trust Deed and other agreements in order to facilitate the redemption of the Notes. Resolution 1 provides for the deletion of the requirement relating to the principal amount of the Notes required to be outstanding at the time the Issuer exercises the option to redeem the Notes. The notice period to be given to the Noteholders is also amended.

Resolution 2 reduces the interest period of the Notes from 3 months to 1 month and makes consequential amendments to the Conditions.

Resolution 3 authorises the Trustee to agree amendments to the Trust Deed and other agreements to give effect to Resolutions 1 and 2.

If the Extraordinary Resolutions are passed, it is anticipated that notice will be given to the Trustee and Noteholders of the redemption of the Notes on an interest payment date by publication in the Financial Times and through Euroclear and Cedel at least 7 days before the redemption date.

In accordance with its normal practice, the Trustee expresses no opinion on the merits of these proposals or the Extraordinary Resolutions contained in this Notice but has authorised it to be stated that it has no objection to the Resolutions being submitted to the Noteholders for their consideration.

EXTRAORDINARY RESOLUTIONS

"THAT this Meeting of the holders of the £250,000,000 Mortgage Backed Floating Rate Notes due 2029 (the "Notes") of TMC P.I.M.B.S. First Financing PLC (the "Issuer") constituted by a trust deed dated 26th June 1989 and made between, *inter alia*, the Issuer and Morgan Guaranty Trust Company of New York, London office (the "Trustee") (the "Trust Deed" as amended by a supplemental trust deed dated 27th September 1989 made between the Issuer and the Trustee and a supplemental trust deed dated 6th December 1989 made between, *inter alia*, the Issuer and the Trustee (the "Supplemental Trust Deeds")) hereby:

1. Sanctions and approves the modification and amendment of the terms and conditions of the Notes (the "Conditions") by the deletion in its entirety of Condition 5(c) and its replacement with the following:
"On giving not less than 5 Business Days notice to the Noteholders in respect of the relevant Tranche, the Issuer may, on any Interest Payment Date relating to such Tranche, redeem all (but not some only) of the Notes in such Tranche together with interest accrued to the date of redemption, provided that, prior to giving any such notice, the Issuer shall have satisfied the Trustee that it will have funds not subject to the interest of any other person sufficient to fulfil its obligations in respect of such Tranche";
2. Sanctions and approves the modification and amendment of the terms and conditions of the Notes (the "Conditions") by:
(a) amendment of the Supplemental Memorandum dated 27th September 1989 by inserting immediately after the words "31st October, 31st January, 30th April, 31st July" in the definition of Interest Payment Date the words "but so that with effect from 31st August each subsequent Interest Payment Date shall be the last Business Day of each month";
(b) the insertion of the words "up to and including the period ending on (and including) 30th July 1998" after the words "subsequent period" in the second paragraph of Condition 4(a);
(c) the insertion of the words "and after the Interest Period ending on (and including) 30th July 1998 each successive Interest Period thereafter shall begin on (and include) an Interest Payment Date and end on (and include) the day immediately preceding the next Interest Payment Date" at the end of the first sentence of paragraph 2 of Condition 4(a);
(d) the replacement of the word "five" in the first line of Condition 4(b) with the word "two".
3. Sanctions, approves and authorises the Trustee to enter into a supplemental trust deed and such other agreements or documents (if any) as it may determine, on such terms as it, in its sole discretion, may agree, to give effect to Resolutions 1 and 2 above.

Expressions defined in the Notes or in the Trust Deed (as amended by the Supplemental Trust Deeds) shall have the same meanings when used in these resolutions".

VOTING AND QUORUM

1. A Noteholder wishing to attend and vote at the Meeting in person must produce at the Meeting either his definitive Note(s) or a valid voting certificate or certificates issued by a Paying Agent relative to the Note(s) in respect of which he wishes to vote. A Noteholder not intending to attend and vote at the Meeting in person may either deliver his Note(s) or voting certificate(s) to the person whom he wishes to attend on his behalf (or give a voting instruction (on a voting instruction form obtainable from the specified office of any of the Paying Agents set out below) instructing the Paying Agent to appoint one or more proxies to attend and vote at the Meeting in accordance with his instructions).

Notes may be deposited with a Paying Agent or (to the satisfaction of the Paying Agent) held to its order or under its control or blocked in accordance with Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System or Cedel Bank, society anonyme, for the purpose of obtaining voting certificates or giving voting instructions in respect of the Meeting, in each case until 48 hours before the time appointed for holding the Meeting (or, if applicable, any adjourned such Meeting), but not thereafter. Any Note(s) so deposited or held or blocked will be released at the conclusion of the Meeting (or, if applicable, any adjourned such Meeting) or upon surrender of the voting certificate(s) or, not less than 48 hours before the commencement of the Meeting (or, if applicable, any adjourned such Meeting), the revocation of the voting instructions given in respect thereof.

2. The quorum required at the Meeting is one or more persons present holding Notes or voting certificates or being proxies and together holding or representing not less than two-thirds of the aggregate principal amount of the Notes for the time being outstanding. If a quorum is not present at the Meeting within the time prescribed by the Trust Deed, the Meeting will be adjourned and the Extraordinary Resolution will be considered at an adjourned Meeting (notice of which will be given to the Noteholders). The quorum at such an adjourned Meeting will be one or more persons present holding Notes or voting certificates or being proxies and together holding or representing not less than two-thirds of the aggregate principal amount of the Notes for the time being outstanding.

3. Every question submitted to the Meeting will be decided on a show of hands unless a poll is duly demanded by the Chairman of the Meeting or by the Issuer, the Trustee or one or more persons present holding one or more Notes or voting certificates or being a proxy and holding or representing in the aggregate not less than two per cent of the Principal Amount Outstanding of the Notes. On a show of hands every person who is present in person and produces a Note or voting certificate or is a proxy shall have one vote. On a poll every person who is present shall have one vote in respect of each £1 in principal amount of the Notes so produced or represented by the voting certificate so produced or in respect of which he is a proxy. Without prejudice to the terms of any block voting instruction, a voter shall not be obliged to exercise all the votes to which he is entitled or to cast all the votes which he exercises in the same way.
4. To be passed, an Extraordinary Resolution requires a majority in favour consisting of not less than 75 per cent of the votes cast. If passed, an Extraordinary Resolution will be binding upon all the Noteholders, whether or not present at the Meeting and whether or not voting, and upon all holders of Coupons appertaining to the Notes.

PRINCIPAL PAYING AGENT

Morgan Guaranty Trust Company of New York,
60 Victoria Embankment, London EC4Y 0JP
PAYING AGENT

Banque Paribas (Luxembourg) S.A.
10A Boulevard Royal, L-2093 Luxembourg

This Notice is given by:
TMC P.I.M.B.S. First Financing PLC
Sir Williams Atkins House
Ashley Avenue
Epsom
Surrey KT18 5AS

Noteholders whose Notes are held by Euroclear or Cedel Bank should contact the following for further information:

Euroclear: Custody Operations Department (telephone Brussels +322 5191211; telex: 61025)
Cedel Bank: Corporate Action Department (telephone Luxembourg +352 448 821; telex: 2791).

This Notice does not constitute an offer of securities of the Issuer.

Dated May 21st, 1998

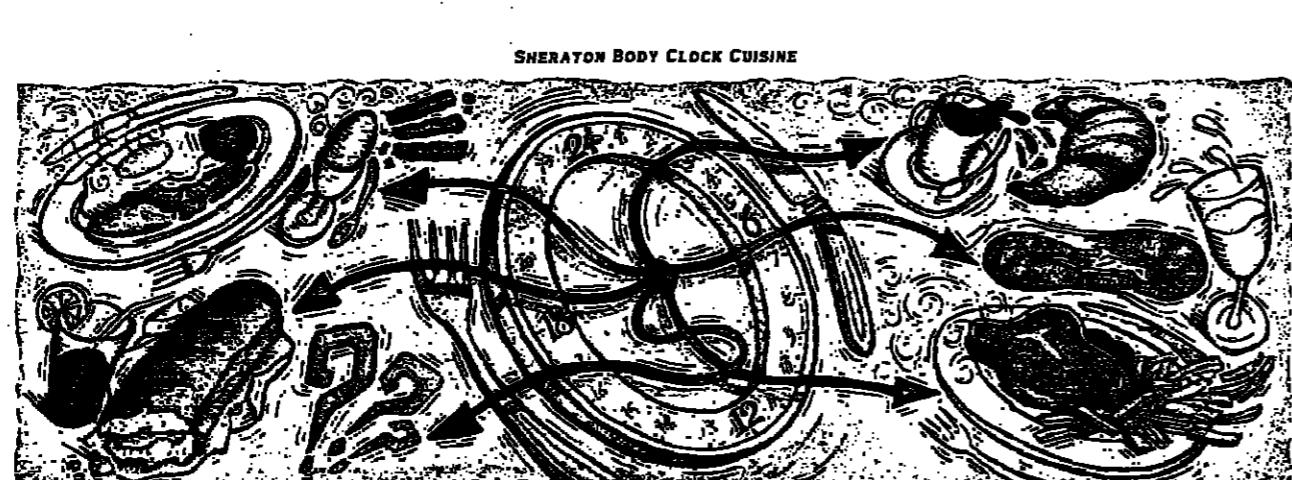
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Dated May 21st, 1998



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Financial Times Surveys

Real Estate
Investment &
Finance

Monday, June 15

For further information please contact:

Tim Hart in New York on

Tel: +1 212 745 1341

or

William MacLeod on

Tel: 44 171 873 3699

email: william.macleod@FT.com

FINANCIAL TIMES

No FT, no comment.

COMPANIES & FINANCE: EUROPE

ENTERTAINMENT FRENCH MEDIA GROUP INTERESTED IN DEAL WITH SEAGRAM FOLLOWING A SUCCESSFUL BID

Canal Plus eyes PolyGram films

By Alice Rawsthorn

Canal Plus, the French media group, is interested in acquiring the film division of PolyGram, the Dutch entertainment company for which Seagram, the Canadian drinks group, has mounted a \$100m-plus bid.

Selling PolyGram's film business to Canal Plus would prevent Europe's largest film production and distribution company, which has released a series of box office hits including *Trainspotting* and *Bean*, from being folded into Universal, Seagram's Hollywood film studio.

PolyGram has invested \$1.2bn in establishing its film company in a bid to establish the first European rival to the US studios. The film division, which owns the rights to such classic TV series as *Thunderbirds* and *The Prisoner*, is still in the

red, but scheduled to break even next year.

Seagram is principally interested in merging PolyGram's record labels with its Universal Music subsidiary. It is believed to be willing to sell the film division to avoid a political row in Europe.

Pierre Lescure, Canal Plus chairman, said yesterday, that his company was "ready to study a European solution" for PolyGram's film business. Canal Plus declined to comment on how the "solution" might be structured.

However, it is understood the French group made informal approaches earlier this week to PolyGram, Philips, its Dutch parent company, and Seagram.

The Philips board, which met in Amsterdam yesterday to discuss Seagram's offer, is believed to have decided that it would be too complicated



Pierre Lescure: 'ready to study a European solution'

to sell the film and music divisions separately.

Seagram has submitted an outline offer of cash and shares for Philips' 75 per cent holding, and also intends to bid for the 25 per cent in public issue. Poly-

gram's board will discuss the Seagram offer at a meeting in New York today.

If the deal goes through, Seagram will acquire 100 per cent of PolyGram, and then sell the film company to Canal Plus. A possible com-

Ifil to make L647bn cash call

By Paul Betts in Milan

Ifil, the industrial holding of Italy's Agnelli family, yesterday announced a L647bn (\$368m) capital increase to help fund the development of its investments in the banking, leisure and retailing sectors.

The quoted company, 50.7 per cent controlled by the Agnelli Ifil holding group, also said consolidated group profits rose nearly 50 per cent last year to L505.5bn.

It raised its dividend on both ordinary and savings shares by L10, to L140 and L160 respectively.

The cash call involves an offer of four new ordinary shares and a free warrant for every 40 shares held, and four new savings shares and a free warrant for every 40 savings shares.

The new ordinary shares are priced at L8,000 each, while the savings shares will be L4,800. Ifil ordinary shares have been trading at just over L9,000, while the savings shares have been changing hands at L5,350.

The issue will raise a total of L15bn, while the exercise of the warrants will produce an additional L12.5bn. Ifil said it would take up all its rights.

Ifil last year completed a series of deals including the acquisition of a stake in Istituto Bancario San Paolo di Torino, which is merging with the IMI banking group.

Ifil controls the retailing alliance between Rinascita and Auchan, the French company.

The holding company, headed by Umberto Agnelli, has sought to diversify its portfolio to reduce the weight of its car interests.

Ifil controls 12.7 per cent of the Fiat automotive group. However, its diversification means this accounts for only about 28 per cent of total assets.

NEWS DIGEST

MOTOR INDUSTRY

GM moves to stem union dissent at Adam Opel

General Motors moved swiftly to reaffirm its commitment to its Adam Opel subsidiary in Germany yesterday after workers' representatives warned they would delay plans to replace the company's chairman unless their concerns were met.

GM said signs of "deep mutual understanding" and "transparency" in discussions with union leaders regarding its plans in Europe and the future status of Opel, "would further strengthen the role and position of Adam Opel as the lead unit in GM's European and International Operations".

The move followed a statement from employees' representatives on Opel's supervisory board that their backing for the replacement of David Herman as Opel's chairman by Gary Cowger was "dependent on the on-going structural discussions with General Motors. Before personnel matters can be decided on, the issues concerning Adam Opel's self-sufficiency and competence have to be mutually resolved".

The two statements reflected jockeying between GM and its German unions over Opel's future. Earlier in the day, the US group confirmed Mr Herman had asked to step down after almost six years as Opel chairman to take over GM's operations in the former Soviet Union. His replacement by Mr Cowger is to be discussed by Opel's supervisory board on June 8.

Graham Bowley, Frankfurt and Helga Simonian, London

SOUTH AFRICA

Investec posts 56% rise

Investec, the acquisitive and fast growing South African financial services group, yesterday revealed a 56 per cent increase to R570m (\$112m) in net profit for the year to March.

Stephen Kosen, chief executive, said the results were boosted by the inclusion for the first time of a full year's results from Carr Sheppards, the UK-based broking and private client portfolio management operation, and by the profits of associates such as Fedsure, the South African life assurance and financial group.

In the past two months, Investec has agreed to buy Hambros and Guinness Mahon, the UK merchant banks. Earlier in the financial year, it won a merchant banking licence in Australia, bought a private bank in Mauritius, acquired US securities company Ernst and Co, and increased its stake in Iberian General Bank from 53.4 per cent to 63.5 per cent.

Investec has become one of South Africa's biggest international asset management groups and will have a total of R326.3bn under management, although Mr Kosen acknowledged the group was "still very small from a global point of view". He said the asset management businesses of Guinness Flight Hambros and Investec would be combined within five or six weeks to create a global business.

Investec's total income rose 39 per cent to R1.74bn, while the ratio of operating expenses to total income fell to 54.7 per cent from the previous year's 56.2 per cent. Diluted earnings per share rose 40 per cent to 780.3 cents. The company declared a final dividend of 220 cents, up from 160 cents the previous year. Over 10 years diluted earnings per share have risen at a compound rate of 30.4 per cent a year.

Victor Mallet, Johannesburg

Standard Bank in Malawi buy

South Africa's Standard Bank group is continuing its expansion into sub-Saharan Africa with the purchase of a 72 per cent stake in Investment and Development Bank of Malawi Financial Services (Indefinance) for \$10m.

Malawi will be the 15th country on the continent, outside South Africa, where Standard Bank has a presence. The bank has a profitable business in the region focusing mainly on commercial banking and corporate finance rather than retail banking, and the African operations account for about 15 per cent of group profits.

Tony Wright, deputy managing director responsible for Standard's African banking group, said there would now be a period of consolidation while the group continued to invest in satellite links and other new technology, although the bank was considering the possibility of a operation in Angola.

Arthur Schwarz, a director of the Malawian group selling Indefinance, said the arrival of Standard Bank would be like a "titan" to bring our somewhat sleepy institutions kicking and screaming into the 21st century". South Africa provides more than a third of Malawi's imports, and takes 13 per cent of its exports. Victor Mallet

Fall in exports hits Amcoal

Decline in export revenue dragged down profits at Anglo American Coal Corporation, the South African group, which yesterday reported almost no growth in earnings for the year to March.

Earnings per share fell by 2.7 per cent to R32.71, reflecting an increased number of shares in issue after capitalisation awards. Dividends will be 10.6 per cent higher at R14.60 a share for shareholders who decide to take their payout in the form of cash rather than additional shares. Export earnings for the year dropped, in spite of a rise in tonnage and a weaker rand/dollar exchange rate. Amcoal attributed the decline to smaller growth in levels of internationally traded steam coal, at about 8m tons. This, together with a decision by several large consumers to reduce stock levels, led to reductions in spot prices in the second half of 1997 and in the longer term contract prices for 1998 deliveries.

Greta Steyn, Johannesburg

NETHERLANDS

ABN Amro denies US buy

ABN Amro, the Dutch bank, yesterday dismissed as "outright nonsense" a newspaper report it was in advanced talks to buy Bear Stearns, the US investment bank. Bear Stearns also denied it was in talks with anyone.

"There is no smoke and no fire," ABN Amro said of the report. "We've always said we're not after a big US investment bank." With a market value of about \$6.1bn, Bear Stearns is less than one fifth the size of the Dutch bank.

ABN Amro said it was satisfied with its strategy of building a regional presence in the US Midwest. "We don't feel our franchise is at all threatened by First Chicago-Banc One", the \$25.5bn takeover announced last month. "We're happy where we are in the US, but we would defend our patch."

The Dutch bank noted, however, that it was flexible enough to deal with changing circumstances. For example, it had bought BZW's investment banking operations in Australia and New Zealand and a 75 per cent stake in Thailand's Bank of Asia, after saying previously it was not interested in acquisitions in the region. Clay Harris, Banking Correspondent

COMMERCIAL BANK

Equity chiefs appointed

Germany's Commerzbank yesterday named its first global heads of equities trading and sales.

Mehmet Daiman, head of Commerzbank Global Equities, described as a "major coup" the recruitment of Philip Wale from Goldman Sachs as head of equities trading. Mr Wale was co-head of European shares, responsible for continental equities, at Goldman, where he had worked for 10 years.

Jacqueline O'Neill has joined as head of sales after eight years at Paribas, where she was a senior account manager. The sales and trading operation is due to start customer business during the summer. Clay Harris

Mannesmann telecoms arm lifts revenues 67%

By Ralph Atkins in Bonn

Mannesmann Arcor, one of Germany's new telecoms groups, lifted turnover 67 per cent to DM380m (\$213m) in the three months after full liberalisation of the market on January 1, with half the increase coming from private customers, according to results released yesterday by Mannesmann, its parent.

The strong growth suggests that Mannesmann Arcor, which said it was carrying 7m minutes of conversation a day on its fixed-line network, is making significant inroads to the market dominated by Deutsche Telekom.

Mannesmann Mobilfunk, which operates D2, Germany's largest digital mobile network, lifted turnover 34 per cent to DM1.6bn in the

quarter. No profit figures were released, but Mannesmann also said its engineering businesses would see a substantial improvement this year.

Meanwhile, o.telco, the rival fixed-line telecoms company owned by the Veba and RWE industrial conglomerates, yesterday unveiled a change in strategy in the hope of overcoming customer hesitancy towards new services.

It said it would join Mannesmann Arcor in offering "call by call" use of its services without any need to pre-register as a customer. "Call by call" services are available by dialling a five-digit code.

O.telco said that its "pre-selection" business - by which customers contract to a new carrier and need not use an additional code - was

achieving success. Viag, the Munich-based conglomerate, indicated it was looking to expand its nascent telecoms operations in eastern Europe, alongside its energy interests, with Hungary and the Czech Republic as priorities.

Viag's German mobile services would begin "in late summer", a few months later than expected.

The week Viag, the Munich-based conglomerate, indicated it was looking to expand its nascent telecoms operations in eastern Europe, alongside its energy interests, with Hungary and the Czech Republic as priorities.

Resolution 3 authorises the Trustee to agree amendments to the Trust Deed and other agreements to give effect to Resolution 2 and other Resolutions if the Extraordinary Resolutions are passed. It is anticipated that notices will be given to Noteholders of the redemption of the Notes on an interest payment date by publication in the Financial Times and the Luxembourg Wort and through Euromarket and Cetel at least 7 days before the redemption date.

In accordance with its normal practice, the Trustee expresses no opinion on the merits of these proposals or the Extraordinary Resolutions contained in this Notice but has authorised it to be issued.

Resolutions 2 and 3 are not intended to affect the rights of Noteholders of the Notes.

NOTICE IS HEREBY GIVEN that a Meeting of the Noteholders convened by the Trustee will be held at 65 Holborn Viaduct, London EC1A 2DD on Monday, June 15, 1998 at 11.00 am (UK time) for the purpose of considering the matter of the holders of TMC Mortgage Securities No. 9 PLC ("the Issuer") for the time being for the purposes of considering and, if thought fit, passing the following Resolutions which will be proposed as Extraordinary Resolutions in accordance with the provisions of a trust deed dated October 12, 1998 made between the Issuer and The Chase Manhattan Bank, N.A., as trustee for the Noteholders ("the Trustee"), and constituting the Notes ("the Trust Deed").

PROPOSAL: The Issuer is intending, subject to the passing of the Extraordinary Resolutions, to redeem the Notes in full at 100 per cent of their principal amount (plus accrued interest). The Issuer has not yet determined the intended redemption date. However, redemption will only occur on an interest payment date.

The Extraordinary Resolutions set out below, if duly passed, will approve the making of amendments to the terms and conditions of the Notes ("the Conditions") and to the Trust Deed in order to facilitate the redemption of the Notes.

Resolution 1 provides for the deletion of the requirements relating to the principal amount of the Notes required to be outstanding in order for Noteholders to exercise the option to redeem the Notes. The period to be given to the Trustee and the Noteholders is also amended.

Resolution 2 reduces the interest period of the Notes from 3 months to 1 month and makes consequential amendments to the Conditions.

Resolution 3 authorises the Trustee to agree amendments to the Trust Deed and other agreements to give effect to Resolution 2 and other Resolutions if the Extraordinary Resolutions are passed. It is anticipated that notices will be given to Noteholders of the redemption of the Notes on an interest payment date by publication in the Financial Times and the Luxembourg Wort and through Euromarket and Cetel at least 7 days before the redemption date.

In accordance with its normal practice, the Trustee expresses no opinion on the merits of these proposals or the Extraordinary Resolutions contained in this Notice but has authorised it to be issued.

NOTICE IS HEREBY GIVEN that a Meeting of the Noteholders convened by the Trustee will be held at 65 Holborn Viaduct, London EC1A 2DD on Monday, June 15, 1998 at 11.00 am (UK time) for the purpose of considering the matter of the holders of TMC Mortgage Securities No. 10 PLC ("the Issuer") constituted by a trust deed dated October 12, 1998 and made between the Issuer and The Chase Manhattan Bank, N.A. ("the Trustee") for the time being for the purposes of considering and, if thought fit, passing the following Resolutions which will be proposed as Extraordinary Resolutions in accordance with the provisions of a trust deed dated October 12, 1998 made between the Issuer and The Chase Manhattan Bank, N.A., as trustee for the Noteholders ("the Trustee"), and constituting the Notes ("the Trust Deed").

PROPOSAL: The Issuer is intending, subject to the passing of the Extraordinary Resolutions, to redeem the Notes in full at 100 per cent of their principal amount (plus accrued interest). The Issuer has not yet determined the intended redemption date. However, redemption will only occur on an interest payment date.

The Extraordinary Resolutions set out below, if duly passed, will approve the making of amendments to the terms and conditions of the Notes ("the Conditions") and to the Trust Deed in order to facilitate the redemption of the Notes.

Resolution 1 provides for the deletion of the requirements relating to the principal amount of the Notes required to be outstanding in order for Noteholders to exercise the option to redeem the Notes. The period to be given to the Trustee and the Noteholders is also amended.

Resolution 2 reduces the interest period of the Notes from 3 months to 1 month and makes consequential amendments to the Conditions.

Resolution 3 authorises the Trustee to enter into a supplemental trust deed and such other agreements or documents (if any) as it may determine, on such terms as it, in its sole discretion, may agree, to give effect to Resolution 1 and 2 above.

Resolutions 1 and 2 are not intended to affect the rights of Noteholders of the Notes.

NOTICE IS HEREBY GIVEN that a Meeting of the Noteholders convened by the Trustee will be held at 65 Holborn Viaduct, London EC1A 2DD on Monday, June 15, 1998 at 11.00 am (UK time) for the purpose of considering the matter of the holders of TMC Mortgage Securities No. 11 PLC ("the Issuer") constituted by a trust deed dated December 20, 1998 and made between the Issuer and The Chase Manhattan Bank, N.A. ("the Trustee") for the time being for the purposes of considering and, if thought fit, passing the following Resolutions which will be proposed as Extraordinary Resolutions in accordance with the provisions of a trust deed dated December 20, 1998 made between the Issuer and The Chase Manhattan Bank, N.A., as trustee for the Noteholders ("the Trustee"), and constituting the Notes ("the Trust Deed").

PROPOSAL: The Issuer is intending, subject to the passing of the Extraordinary Resolutions, to redeem the Notes in full at 100 per cent of their principal amount (plus accrued interest). The Issuer has not yet determined the intended redemption date. However, redemption will only occur on an interest payment date.

The Extraordinary Resolutions set out below, if duly passed, will approve the making of amendments to the terms and conditions of the Notes ("the Conditions") and to the Trust Deed in order to facilitate the redemption of the Notes.

Resolution 1 provides for the deletion of the requirements relating to the principal amount of the Notes required to be outstanding in order for Noteholders to exercise the option to redeem the Notes. The period to be given to the Trustee and the Noteholders is also amended.

Resolution 2 reduces the interest period of the Notes from 3 months to 1 month and makes consequential amendments to the Conditions.

Resolution 3 authorises the Trustee to enter into a supplemental trust deed and such other agreements or documents (if any) as it may determine, on such terms as it, in its sole discretion, may agree, to give effect to Resolution 1 and 2 above.

JPY 1000000

TMC P.I.M.B.S. Second Financing PLC (the "Issuer")

(Incorporated with limited liability under the laws of England and Wales)

NOTICE OF A MEETING

of the holders of the £30,000,000 Mortgage Backed Floating Rate Notes due 2030 of the Issuer (the "Noteholders" and the "Notes" respectively)

NOTICE IS HEREBY GIVEN that a Meeting of the Noteholders convened by the Issuer will be held at 65 Holborn Viaduct, London EC1A 2DV on Monday, 15th June 1998 at 11.30am (London time) (or as soon thereafter as the meeting of the holders of TMC P.I.M.B.S. First Financing PLC notes concludes) for the purpose of considering and, if thought fit, passing the following Resolutions which will be proposed as Extraordinary Resolutions in accordance with the provisions of a trust deed dated 26th June 1989 made between, *inter alia*, the Issuer and Morgan Guaranty Trust Company of New York, London office, as trustee for the Noteholders (the "Trustee"), and constituting the Notes (the "Trust Deed" as amended by a supplemental trust deed dated 31st October 1989 made between the Issuer and the Trustee and a supplemental trust deed dated 6th December 1989 made between, *inter alia*, the Issuer and the Trustee (the "Supplemental Trust Deeds").

PROPOSAL

The Issuer is intending, subject to the passing of the Extraordinary Resolutions, to redeem the Notes in full at 100 per cent of their principal amount (plus accrued interest). The Issuer has not yet determined the intended redemption date. However, redemption will only occur on an interest payment date.

The Extraordinary Resolutions set out below, if duly passed, will approve the making of amendments to the terms and conditions of the Notes (the "Conditions") and to the Trust Deed and other agreements in order to facilitate the redemption of the Notes. Resolution 1 provides for the deletion of the requirements relating to the principal amount of the Notes required to be outstanding at the time the Issuer exercises the option to redeem the Notes. The notice period to be given to the Noteholders is also amended.

Resolution 2 reduces the interest period of the Notes from 6 months to 1 month and makes consequential amendments to the Conditions.

Resolution 3 authorises the Trustee to agree amendments to the Trust Deed and other agreements to give effect to Resolutions 1 and 2.

If the Extraordinary Resolutions are passed, it is anticipated that notice will be given to the Trustee and Noteholders of the redemption of the Notes on an interest payment date by publication in the Financial Times and through Euroclear and Cede at least 7 days before the redemption date.

In accordance with its normal practice, the Trustee expresses no opinion on the merits of these proposals or the Extraordinary Resolutions contained in this Notice but has authorised it to state that it has no objection to the Resolutions being submitted to the Noteholders for their consideration.

EXTRAORDINARY RESOLUTIONS

"THAT this Meeting of the holders of the £30,000,000 Mortgage Backed Floating Rate Notes due 2030 (the "Notes") of TMC P.I.M.B.S. Second Financing PLC (the "Issuer") constituted by a trust deed dated 26th June 1989 and made between, *inter alia*, the Issuer and Morgan Guaranty Trust Company of New York, London office (the "Trustee") (the "Trust Deed" as amended by a supplemental trust deed dated 31st October 1989 and made between the Issuer and the Trustee and a supplemental trust deed dated 6th December 1989 made between, *inter alia*, the Issuer and the Trustee (the "Supplemental Trust Deeds") hereby:

1. Sanctions and approves the modification and amendment of the terms and conditions of the Notes (the "Conditions") by deletion in its entirety of Condition 5(c) and its replacement with the following:

"On giving out less than 5 Business Days notice to the Noteholders in respect of the relevant Tranche, the Issuer may, on any Interest Payment Date relating to a Tranche, redeem all (but not some only) of the Notes in such Tranche together with interest accrued to the date of redemption, provided that, prior to giving any such notice, the Issuer shall have satisfied the Trustee that it will have funds not subject to the interest of any other person sufficient to fulfil its obligations in respect of such Tranche";
2. Sanctions and approves the modification and amendment of the terms and conditions of the Notes (the "Conditions") by:
 - (a) amendment of the Supplemental Memorandum dated 31st October 1989 by inserting immediately after the words "2nd January, 2nd July" in the definition of Interest Payment Date the words "but so that with effect from 2nd July 1998 each subsequent Interest Payment Date shall be the last Business Day of each month, commencing with the last Business Day in 1998";
 - (b) the insertion of the words "up to and including the period ending on (and including) 1st July 1998" after the words "subsequent period" in the second paragraph of Condition 4(a);
 - (c) the insertion of the words "and after the Interest Period ending on (and including) 1 July 1998 the following Interest Period shall begin on (and include) 2nd July 1998 and end on (and include) 30th July 1998 and each successive Interest Period thereafter shall begin on (and include) an Interest Payment Date and end on (and include) the day immediately preceding the next Interest Payment Date" at the end of the first sentence of paragraph 2 of Condition 4(a);
 - (d) the replacement of the word "five" in the first line of Condition 4(b) with the word "two".
3. Sanctions, approves and authorises the Trustee to enter into a supplemental trust deed and such other agreements or documents (if any) as it may determine, on such terms as it, in its sole discretion, may agree, to give effect to Resolutions 1 and 2 above.

Expressions defined in the Notes or in the Trust Deed (as amended by the Supplemental Trust Deeds) shall have the same meanings when used in these resolutions."

VOTING AND QUORUM

1. A Noteholder wishing to attend and vote at the Meeting in person must produce at the Meeting either his definitive Note(s) or a valid voting certificate or certificates issued by a Paying Agent relative to the Note(s) in respect of which he wishes to vote.

A Noteholder not intending to attend and vote at the Meeting in person may either deliver his Note(s) or voting certificate(s) to the person whom he wishes to attend on his behalf or give a voting instruction (on a voting instruction form obtainable from the specified office of any of the Paying Agents set out below) instructing the Paying Agent to appoint one or more proxies to attend and vote at the Meeting in accordance with his instructions.

Notes may be deposited with a Paying Agent (or in the satisfaction of the Paying Agent) held to its order or under its control or blocked in its account with Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System or Cede Bank, society anonyme, for the purpose of obtaining voting certificates or giving voting instructions in respect of the Meeting, in each case until 48 hours before the time appointed for holding the Meeting (or, if applicable, any adjourned such Meeting), but not thereafter. Any Note(s) so deposited or held or blocked will be released at the conclusion of the Meeting (or, if applicable, any adjourned such Meeting) or upon surrender of the voting certificate(s) or, not less than 48 hours before the commencement of the Meeting (or, if applicable, any adjourned such Meeting), the revocation of the voting instructions given in respect thereof.

2. The quorum required at the Meeting is one or more persons present holding Notes or voting certificates or being proxies and together holding or representing not less than two-thirds of the aggregate principal amount of the Notes for the time being outstanding. If a quorum is not present at the Meeting within the time prescribed by the Trust Deed, the Meeting will be adjourned and the Extraordinary Resolution will be considered at an adjourned Meeting (notice of which will be given to the Noteholders). The quorum at such an adjourned Meeting will be one or more persons present holding Notes or voting certificates or being proxies and together holding or representing not less than two-thirds of the aggregate principal amount of the Notes for the time being outstanding.

3. Every question submitted to the Meeting will be decided on a show of hands unless a poll is duly demanded by the Chairman of the Meeting or by the Issuer, the Trustee or one or more persons present holding one or more Notes or voting certificates or being a proxy and holding or representing in the aggregate not less than two per cent of the Principal Amount Outstanding of the Notes. On a show of hands every person who is present in person and produces a Note or voting certificate or is a proxy shall have one vote. On a poll every person who is so present shall have one vote in respect of each £1 in principal amount of the Notes so produced or represented by the voting certificate so produced or in respect of which he is a proxy. Without prejudice to the terms of any block voting instruction, a voter shall not be obliged to exercise all the votes to which he is entitled or to cast all the votes which he exercises in the same way.

4. To be passed, an Extraordinary Resolution requires a majority in favour consisting of not less than 75 per cent of the votes cast. If passed, an Extraordinary Resolution will be binding upon all the Noteholders, whether or not present at the Meeting and whether or not voting, and upon all holders of Coupons appertaining to the Notes.

PRINCIPAL PAYING AGENT

Morgan Guaranty Trust Company of New York
60 Victoria Embankment, London EC4Y 0JP

PAYING AGENT

Banque Paribas (Luxembourg) S.A.
10A Boulevard Royal, L-2093 Luxembourg

This Notice is given by:

TMC P.I.M.B.S. Second Financing PLC

Sir Williams Atkins House

Ashley Avenue

Epsom

Surrey KT18 5AS

Dated May 21st, 1998

Noteholders whose Notes are held by Euroclear or Cede Bank should contact the following for further information:

Euroclear: Custody Operations Department (telephone Brussels +322 5191211; telex: 61025)

Cede Banks Corporate Action Department (telephone Luxembourg +352 448 821; telex: 2791).

This Notice does not constitute an offer of securities of the Issuer.

TMC P.I.M.B.S. Third Financing PLC

(the "Issuer")

(Incorporated with limited liability under the laws of England and Wales)

NOTICE OF A MEETING

of the holders of the £150,000,000 Mortgage Backed Floating Rate Slow Pay Notes due 2029 of the Issuer (the "Noteholders" and the "Notes" respectively)

NOTICE IS HEREBY GIVEN that a Meeting of the Noteholders convened by the Issuer will be held at 65 Holborn Viaduct, London EC1A 2DV on Monday, 15th June 1998 at 11.30am (London time) (or as soon thereafter as the meeting of the holders of TMC P.I.M.B.S. First Financing PLC notes concludes) for the purpose of considering and, if thought fit, passing the following Resolutions which will be proposed as Extraordinary Resolutions in accordance with the provisions of a trust deed dated 26th June 1989 made between, *inter alia*, the Issuer and Morgan Guaranty Trust Company of New York, London office, as trustee for the Noteholders (the "Trustee"), and constituting the Notes (the "Trust Deed" as amended by a supplemental trust deed dated 31st October 1989 made between the Issuer and the Trustee and a supplemental trust deed dated 6th December 1989 made between, *inter alia*, the Issuer and the Trustee (the "Supplemental Trust Deed").

PROPOSAL

The Issuer is intending, subject to the passing of the Extraordinary Resolutions, to redeem the Notes in full at 100 per cent of their principal amount (plus accrued interest). The Issuer has not yet determined the intended redemption date. However, redemption will only occur on an interest payment date.

The Extraordinary Resolutions set out below, if duly passed, will approve the making of amendments to the terms and conditions of the Notes (the "Conditions") and to the Trust Deed and other agreements in order to facilitate the redemption of the Notes. Resolution 1 provides for the deletion of the requirements relating to the principal amount of the Notes required to be outstanding at the time the Issuer exercises the option to redeem the Notes. The notice period to be given to the Noteholders is also amended.

Resolution 2 reduces the interest period of the Notes from 3 months to 1 month and makes consequential amendments to the Conditions.

Resolution 3 authorises the Trustee to agree amendments to the Trust Deed and other agreements to give effect to Resolutions 1 and 2.

If the Extraordinary Resolutions are passed, it is anticipated that notice will be given to the Trustee and Noteholders of the redemption of the Notes on an interest payment date by publication in the Financial Times and through Euroclear and Cede at least 7 days before the redemption date.

In accordance with its normal practice, the Trustee expresses no opinion on the merits of these proposals or the Extraordinary Resolutions contained in this Notice but has authorised it to state that it has no objection to the Resolutions being submitted to the Noteholders for their consideration.

EXTRAORDINARY RESOLUTIONS

"THAT this Meeting of the holders of the £150,000,000 Mortgage Backed Floating Rate Slow Pay Notes due 2029 (the "Notes") of TMC P.I.M.B.S. Third Financing PLC (the "Issuer") constituted by a trust deed dated 26th June 1989 and made between, *inter alia*, the Issuer and Morgan Guaranty Trust Company of New York, London office (the "Trustee") (the "Trust Deed" as amended by a supplemental trust deed dated 6th December 1989 made between, *inter alia*, the Issuer and the Trustee (the "Supplemental Trust Deed") hereby:

1. Sanctions and approves the modification and amendment of the terms and conditions of the Notes (the "Conditions") by deletion in its entirety of Condition 5(c) and its replacement with the following:

"On giving out less than 5 Business Days notice to the Noteholders in respect of the relevant Tranche, the Issuer may, on any Interest Payment Date relating to a Tranche, redeem all (but not some only) of the Notes in such Tranche together with interest accrued to the date of redemption, provided that, prior to giving any such notice, the Issuer shall have satisfied the Trustee that it will have funds not subject to the interest of any other person sufficient to fulfil its obligations in respect of such Tranche";
2. Sanctions and approves the modification and amendment of the terms and conditions of the Notes (the "Conditions") by:
 - (a) amendment of the Supplemental Memorandum dated 6th December 1989 by inserting immediately after the words "31st January, 30th April, 31st July, 31st October" in the definition of Interest Payment Date the words "but so that with effect from 31st July 1998 each subsequent Interest Payment Date shall be the last Business Day of each month";
 - (b) the insertion of the words "up to and including the period ending on (and including) 30th July 1998" after the words "subsequent period" in the second paragraph of Condition 4(a);
 - (c) the insertion of the words "and after the Interest Period ending on (and include) 31st July 1998 the following Interest Period shall begin on (and include) an Interest Payment Date and end on (and include) the day immediately preceding the next Interest Payment Date" at the end of the first sentence of paragraph 2 of Condition 4(a);
 - (d) the replacement of the word "five" in the first line of Condition 4(b) with the word "two".
3. Sanctions, approves and authorises the Trustee to enter into a supplemental trust deed and such other agreements or documents (if any) as it may determine, on such terms as it, in its sole discretion, may agree, to give effect to Resolutions 1 and 2 above.

Expressions defined in the Notes or in the Trust Deed (as amended by the Supplemental Trust Deed) shall have the same meanings when used in these resolutions."

VOTING AND QUORUM

1. A Noteholder wishing to attend and vote at the Meeting in person must produce at the Meeting either his definitive Note(s) or a valid voting certificate or certificates issued by a Paying Agent relative to the Note(s) in respect of which he wishes to vote.

A Noteholder not intending to attend and vote at the Meeting in person may either deliver his Note(s) or voting certificate(s) to the person whom he wishes to attend on his behalf or give a voting instruction (on a voting instruction form obtainable from the specified office of any of the Paying Agents set out below) instructing the Paying Agent to appoint one or more proxies to attend and vote at the Meeting in accordance with his instructions.

Notes may be deposited with a Paying Agent (or in the satisfaction of the Paying Agent) held to its order or under its control or blocked in its account with Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System or Cede Bank, society anonyme, for the purpose of obtaining voting certificates or giving voting instructions in respect of the Meeting, in each case until 48 hours before the time appointed for holding the Meeting (or, if applicable, any adjourned such Meeting), but not thereafter. Any Note(s) so deposited or held or blocked will be released at the conclusion of the Meeting (or, if applicable, any adjourned such Meeting), or upon surrender of the voting certificate(s) or, not less than 48 hours before the commencement of the Meeting (or, if applicable, any adjourned such Meeting), the revocation of the voting instructions given in respect thereof.

2. The quorum required at the Meeting is one or more persons present holding Notes or voting certificates or being proxies and together holding or representing not less than two-thirds of the aggregate principal amount of the Notes for the time being outstanding. If a quorum is not present at the Meeting within the time prescribed by the Trust Deed, the Meeting will be adjourned and the Extraordinary Resolution will be considered at an adjourned Meeting (notice of which will be given to the Noteholders). The quorum at such an adjourned Meeting will be one or more persons present holding Notes or voting certificates or being proxies and together holding or representing not less than two-thirds of the aggregate principal amount of the Notes for the time being outstanding.

3. Every question submitted to the Meeting will be decided on a show of hands unless a poll is duly demanded by the Chairman of the Meeting or by the Issuer, the Trustee or one or more persons present holding one or more Notes or voting certificates or being a proxy and holding or representing in the aggregate not less than two per cent of the Principal Amount Outstanding of the Notes. On a show of hands every person who is present in person and produces a Note or voting certificate or is a proxy shall have one vote. On a poll every person who is so present shall have one vote in respect of each £1 in principal amount of the Notes so produced or represented by the voting certificate so produced or in respect of which he is a proxy. Without prejudice to the terms of any block voting instruction, a voter shall not be obliged to exercise all the votes to which he is entitled or to cast all the votes which he exercises in the same way.

4. To be passed, an Extraordinary Resolution requires a majority in favour consisting of not less than 75 per cent of the votes cast. If passed, an Extraordinary Resolution will be binding upon all the Noteholders, whether or not present at the Meeting and whether or not voting, and upon all holders of Coupons appertaining to the Notes.

PRINCIPAL PAYING AGENT

Morgan Guaranty Trust Company of New York
60 Victoria Embankment, London EC4Y 0JP

PAYING AGENT

Banque Paribas (Luxembourg) S.A.
10A Boulevard Royal, L-2093 Luxembourg

This Notice is given by:

TMC P.I.M.B.S. Third Financing PLC

Sir Williams Atkins House

Ashley Avenue

Essex

Surrey KT18 5AS

Dated May 21st, 1998

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The eagle's eye highlights a particular area of interest within its expansive field of view by an extraordinary ability to magnify that area by some two and a half times.

Vision that delivers.

To focus on the kind of potential in a business that we put a high value on and are prepared to pay for also takes a particular vision.

Vision that we back with the £850 million Candover 1997 Fund.

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COMPANIES & FINANCE: EUROPE

CREDIT LYONNAIS AFTER THE EUROPEAN COMMISSION'S CLEARANCE OF A RESCUE PLAN, FT WRITERS EVALUATE HOW THE BANK ACCUMULATED LOSSES AND WHAT THE FUTURE HOLDS

Brussels puts an end to four years of uncertainty

By Andrew Jack in Paris

Investors will start eyeing Crédit Lyonnais with renewed energy from today, now that four years of uncertainty over the future of the French bank have come to an end.

Of immediate interest to rival financial institutions will be the increased target of asset sales fixed by Brussels, which requires Crédit Lyonnais to reduce its balance sheet by FF180bn (\$113bn) on 1995 levels. That represents a significant increase from the FF130bn stipulated in the original 1995 rescue plan.

However, a number of these asset sales – estimated at FF200bn or more – have already taken place over the past three years, including much of the bank's network

in South America, for example. Others – which include the closure of some 70 branches within France and in Spain, for example, where the possible sale of some loan portfolio – will be relatively low-profile and may simply involve winding down activities or attracting specialist buyers.

The most important asset disposals – which were also necessary to meet the requirements of the original plan three years ago – are Crédit Lyonnais' principal remaining retail European banking activities outside France. Rising stock markets and recent strong interest in the financial sector across Europe will help the bank to realise values on its assets.

However, the attractiveness of the deals depends very much on the particular domestic markets in which it

different subsidiaries are based. Crédit Lyonnais has a presence in Portugal and in Spain, for example, where analysts argue that finding buyers would be relatively problematic.

BIG, Crédit Lyonnais' German subsidiary, will also prove a difficult proposition. Traditionally, the bank has not found it easy to exercise control over the struggling subsidiary, although senior management changes have improved its power.

For Crédit Lyonnais itself, the sale may still result in a capital loss, given the high price at which it bought BIC, and the agreement it made to compensate remaining minority shareholders for any loss as a result of the sale of its stake.

More attractive is Crédit Lyonnais Belgium, a highly

profitable subsidiary with which the Paris headquarters was particularly reticent to part.

The Belgian disposal was also a condition in the 1995 plan, so far not yet respected, and Karel Van Miert, the EU competition commissioner, stressed it must now be sold before the end of this year.

Elsewhere, Brussels has imposed FF164bn in asset sales outside Europe, which must take place in North America or Asia. The list is believed to exclude strategic assets such as the bank's principal and profitable New York or Tokyo operations.

In order to prevent the appearance of a forced sale that drives the price down, a list of assets has been agreed but is confidential.

A similar strategy of dis-

cretion helped Crédit Lyonnais to realise a strong profit last year from selling its Irish-based credit division, Woodchester.

If asset sales will attract some buyers, the strongest interest may come for Crédit Lyonnais' itself. Brussels and Paris have reiterated the principle in the 1995 plan that the bank must be privatised, and advanced the deadline from the end of 1999 to October next year.

The French government has agreed, by that time, to reduce its stake to 10 per cent at most, and to adopt a strategy towards the sale that is "open, transparent and non-discriminatory" towards foreign buyers.

Brussels preferred the option of a forced sale, which would probably raise more money. But the French authorities have ultimately given freedom to manage the process as they choose. They have left open the possibility of a trade sale, although the preferred option of Crédit Lyonnais' own management is for a

single-step sale used. Allianz, the German insurer, has expressed its willingness to take up to 10 per cent. Another Crédit Lyonnais ally, Nippon Life, may now be less predisposed, given the crisis in Asian markets.

Whatever happens, many analysts expect the bank to seek some FF160bn-FF170bn in additional capital to strengthen its Tier 1 solvency ratio. That may provide investors with an opportunity to buy new Crédit Lyonnais shares ahead of the privatisation.

Another chance may come through the sale of equity issued by the bank – as proposed in the new rescue plan – to buy out its superdividend payments to the state and the continuing costs of the penalising loan it has made to CDR.

COMPETITION

Van Miert finds firm stand wins flexibility

By Samer Iskandar in Brussels

Karel Van Miert, the European Union competition commissioner, was manifestly relieved yesterday after his colleagues approved a deal he had negotiated with the French government over the rescue of Crédit Lyonnais.

He brandished the stick of a possible re-opening of the investigation, should he suspect that any of his conditions are not being met.

Mr Van Miert's tough stance and strong words

of acquisition by a group of shareholders.

However, Mr Van Miert, always more talkative about the concessions he obtained than those he granted, yesterday insisted the Commission would watch the whole process very carefully.

Having obtained significant concessions from the French authorities in exchange for clearing subsidies of more than FF100bn (\$16.7bn) for the troubled bank, Mr Van Miert could easily have claimed victory, but chose not to.

More important than claiming credit for his achievements, the commissioner will want to leverage his success in ongoing and future negotiations.

These will include other rescue packages, such as that of the Italian authorities for Banco di Napoli, as well as competition cases such as airline alliances and joint ventures between media companies.

After all, some analysts believe the Commission was rather lenient with Crédit Lyonnais.

They point out that although the cost of the rescue has roughly trebled since 1995 – or quadrupled if the Commission's highest estimate of FF190bn is taken into account – the amount of asset sales imposed on the bank has only doubled, from FF310bn to FF620bn.

Mr Van Miert has also dropped his insistence that Credit Lyonnais be auctioned to the highest bidder. Instead, the final agreement only calls for a "transparent and non-discriminatory" privatisation.

This paves the way for one of several solutions favoured by Dominique Strauss-Kahn, France's finance minister, such as a stock market flotation.

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have undoubtedly played a part in obtaining concessions from companies involved in other investigations by the Commission.

Mr Van Miert yesterday said the Banco di Napoli case was nearing a settlement. In a state-backed rescue reminiscent of that of Crédit Lyonnais', Banco di Napoli was returned to health through the creation of a "bad bank" – an ad hoc entity set up to take non-performing assets off the bank's balance sheet.

The Italian government is in the process of merging Banco di Napoli with Banca Nazionale del Lavoro, such as a stock market flotation.

The situation is reminiscent of the final stages of the Crédit Lyonnais negotiations, when he persuaded the French authorities he would not hesitate to veto the aid, even at the risk of driving the bank into bankruptcy.

The Crédit Lyonnais experience has taught Mr Van Miert that standing firm could pay off. If remains to be seen how many more times he will get away with it.

The high cost of the lost decade

Andrew Jack chronicles 10 years of poor management, bad timing and misjudgment

The enormous losses generated by Crédit Lyonnais – which the most pessimistic estimates put at FF180bn (\$31.8bn) – reflect a decade of bad timing, poor management and misjudgment by successive executives, regulators and French administrations alike.

By the time Edmond Alphandéry, the centre-right economics minister, ousted Jean-Yves Haberer from his role as chairman of the bank in 1993, the scene was set for accumulated losses of more than FF200bn between 1992 and 1994.

But the problems began before Mr Haberer arrived as chairman in 1988, and they would continue long after the first of several rescue plans in 1994 under his successor, Jean Peyrelade.

More than 75 separate judicial inquiries are currently under way examining allegations of fraud, corruption and political party financing linked to subsidiaries of the bank over the years. Lending to such figures as Bernard Tapie, the colourful French businessman and former politician, and Giancarlo Parretti, the Italian financier, is under scrutiny.

However, the bulk of the losses were linked less to corruption than to questionable commercial policies as the French economy moved into recession and to the methods used to clean up the mess they caused.

While there has never been any attempt to question the personal integrity of Mr Haberer, a former director of the French Treasury, a French parliamentary inquiry into the troubles at the bank in 1994 placed much of the blame on him and his autocratic management style.

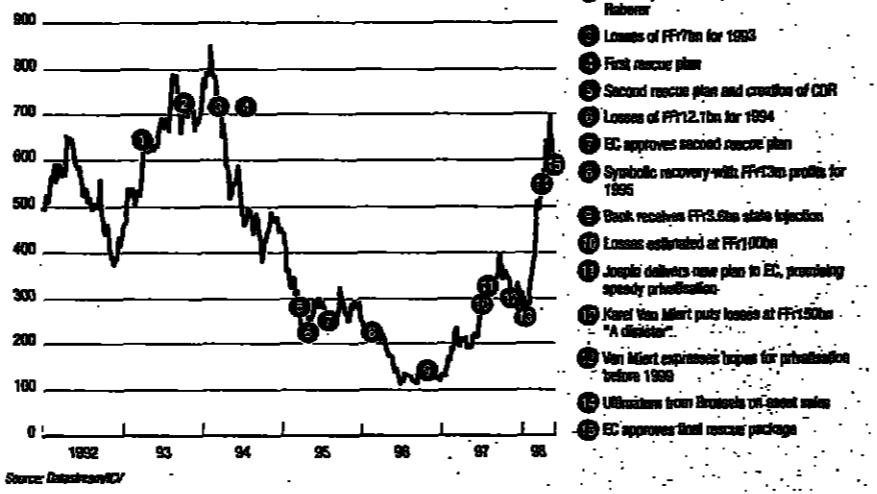
His focus on expanding the balance sheet of the



Leading players: 1988 Jean-Yves Haberer, left, became chairman of an already troubled bank. While his integrity has never been questioned, his management was criticised by a parliamentary inquiry in 1994, a year after economic minister Edmond Alphandéry, centre, replaced him with Jean Peyrelade

Crédit Lyonnais

Share price (FF)



Source: Bloomberg/FT

dents on future profits to the state.

With the election of Alain Juppé's centre-right government in 1995, it fell to Alain Madelin, the new economics minister, to finalise negotiations on the rescue plan. Michel Rouger, former head of the Paris commercial court whom he appointed to head CDR, has been criticised for bowing to political pressure on the sale of some of the most sensitive assets.

But CDR also became a hostage to the ambitious objectives set by Mr Juppé's government: it also became clear during 1996 that other aspects of the rescue plan were proving more costly than anticipated.

If CDR was generating higher losses than originally expected, it also became clear during 1996 that other aspects of the rescue plan were proving more costly than anticipated.

It also recorded an after-

turn of the disposals into a "fire sale", reducing the potential value of the assets.

It also suffered because no comprehensive audit had been undertaken before the assets were transferred. The result was that some of the losses it is now reporting – which it estimates will ultimately run to FF100bn or less due to incompetence or lack of knowledge of the true costs of the bank's previous policies.

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BANKING DISMISSAL DELAYS SALE

Oslo postpones DnB offering

By Greg Molvor in Stockholm

Nycomed, the Anglo-Norwegian pharmaceuticals group, No date has been fixed for Mr Aaser's arrival, however. DnB said yesterday he was due to take over "some time during the autumn".

Jan Gjersvold, chief financial officer, will run DnB during the interregnum.

Jan Hopland, managing director of the government's bank, acknowledged that May and June had been considered as alternatives for the share offering.

No decision had been made on timing, he said, but the government remained determined to reduce its holdings in DnB and Christiansand in 1995 or 1998.

Norwegian officials suggested the DnB listing was unlikely to take place until Mr Aaser had formally taken over, at the earliest.

The Oslo government holds a 52 per cent stake in DnB. Wrote it to reduce this to 33 per cent in one step, it would raise Nkr5bn at current prices. It also plans to lower its holding in Christiansand, in an offering which could raise up to Nkr34bn.

The sales have convinced some analysts that Norway's government may be ready to soften its objections to the two banks participating in cross-border restructuring.

KLM moves back into profit with Fl 606m

By Gordon Cranck in Amsterdam

KLM, the Dutch flag carrier, emerged from a Fl 58m (\$28.8m) loss in 1995-97 to achieve net profits of Fl 606m in the year to March.

In addition, it reported yesterday a Fl 1.65bn gain on the sale of its 20 per cent stake in Northwest Airlines back to its US partner, as part of a renewed 13-year operating agreement which Leo van Wijk, KLM president,

described as "an alliance for life".

As a result, attributable earnings at KLM rose more than nine-fold, from Fl 23m to Fl 2.20bn. Although the bulk of the cash from Northwest came in only this month – and reflected an acceleration of the timetable for unwinding equity links – KLM's parent booked the entire amount to the financial year which had already ended.

It also recorded an after-tax charge of Fl 74m against the US windfall to cover the costs of integrating its sales operations in North America with those of its partner.

"This is a direct consequence of the agreement to sell the shares and to enhance the joint venture," the group said.

Mr van Wijk described the integration of sales organisations as "clearly a step further than other companies have reached". The next moves were to harmonise

tariff structures and information technology. Continental Airlines, the US rival with which Northwest tied up in January, would also need to be drawn into a network including Alitalia, KLM's new European partner.

KLM hopes to integrate its schedules with those of the Italian carrier by November. Meanwhile, it is seeking more links in Asia, where it has loose associations with Malaysia Airlines and Japan Air

System. The Dutch group said the economic downturn in that region had only a limited impact, in part because it had already restructured its route network.

Unless Asia-Pacific problems worsen, KLM expects its operating income to improve further from Fl 81m in 1997-98, which compared with Fl 105m the year before.

That increase reflected an 8 per cent rise in traffic and

on the day to Fl 79.70.

Treasury sees privatisations as money in the bank

Poland is set to place more than \$1bn of bank equity on the market before next January, writes Christopher Bobinski

Alfred Irish Banks in Wielkopolski Bank Kredytowy, will also be assessed on their record in increasing efficiency.

Mrs Kornasiewicz has called for bids for 30 per cent of the Krakow-based Bank Przemyslowo Handlowy, a listed commercial bank in which ING Barings holds 12 per cent. Foreign banks, including Deutsche Bank, ABN Amro, GE Capital and ING have expressed interest in the stake, valued at 1.3bn zloteys (\$365m).

Poland is a mature market and we can afford to ask investors for their vision for the bank and their strategy in light of Polish members

of the European Union," she says.

Both BPH, which is concentrated in southern Poland, and Zachodni have access to retail clients, a corporate lending base and their own branch networks.

All this is needed by corporate banks such as BPH and Bank Handlowy, which is privately owned.

However, Mrs Kornasiewicz thinks Bank Handlowy should wait until the state-owned PKO BP, Poland's largest

COMPANIES & FINANCE: ASIA-PACIFIC

CARMAKERS JAPANESE MANUFACTURERS SHRUG OFF DOWNTURN IN DOMESTIC MARKET

US sales help Toyota, Honda to record

By Michiko Nakamoto in Tokyo

Toyota and Honda, two of Japan's leading carmakers, reported record profits as robust US sales more than offset the sharp downturn in the domestic market.

Toyota suffered a 13.9 per cent fall in domestic vehicle sales to 1.9m units as the depressed economy and a rise in consumption tax damped demand for big-ticket items such as cars.

However, a 17 per cent rise in exports helped Toyota lift group net profits 18 per cent to a record Y454.35bn (US\$3.3bn) on sales down 5 per cent to Y11,674bn. Pre-tax profits increased 17 per cent to Y822.8bn.

Honda also saw domestic sales fall, to 757,000 units in Japan last year against 779,000 the year before. How-

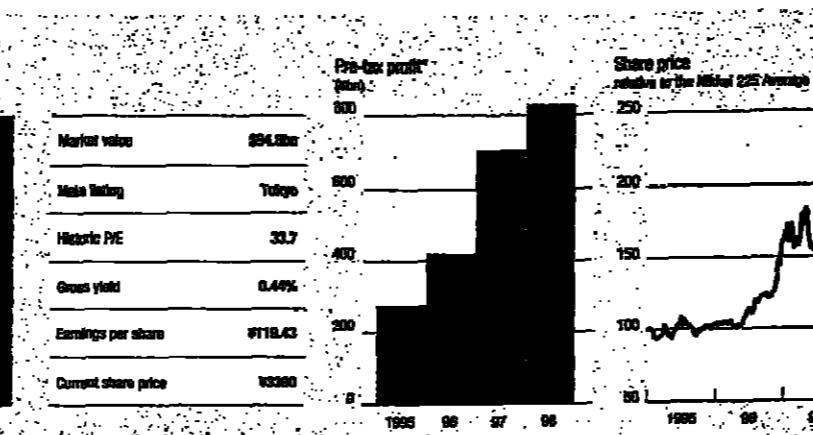
ever, group sales rose 13 per cent to Y5,999.7bn, lifting pre-tax profits 14 per cent to Y443.4bn. Net profits climbed 18 per cent to Y280.6bn.

Firm demand in the US and Europe helped support the improvements at the two companies. "Our US companies have done very well. They have become much more profitable," said Iwao Okijima, Toyota executive vice-president.

In contrast, Toyota's UK sales suffered from a change in car models, which required retooling its factory. However, sales in Europe are on track to meet a target of 600,000 in fiscal 1999, Toyota said.

Honda enjoyed firm demand in the US for its CR-V sports utility vehicle and its new Civic saloon.

Profile: Toyota Motor
Iwao Okijima, president



The company's vehicle sales in North America surged 14 per cent in unit terms to 1.09m, while the value of sales in the region increased 51 per cent, from Y1,950bn to Y3,433.5bn. In Europe, Honda saw vehicle sales grow 24 per cent to 261,000 units, while in value terms sales rose 11 per cent to Y517.3bn.

Honda is more optimistic about the current year than Toyota, expecting firm demand in the US for its Accord saloon to support a 3.8 per cent increase in

group net profits to Y270bn on higher sales of Y6,200bn. Toyota forecasts a decline in parent sales to Y7,700bn, with net profits falling to Y300bn.

Nissan's promises fail to dispel doubts

Proposed remedies to cut debt mountain may be too late, writes Paul Abrahams

Japan's second biggest automotive group yesterday acknowledged it was in deep trouble. In his company's Tokyo headquarters, Yoshikazu Hanawa, president of Nissan, was obliged to announce his second profit warning in six weeks.

He drew a gloomy picture of the crisis. The domestic automotive market had collapsed, down 19 per cent in the first four months this year. Overseas, Nissan has fared little better. Although the European business made a profit for the first time last year, the US operations have been disastrous.

The remedies proposed by Mr Hanawa appear radical - at least for a Japanese company. Nissan will shift from the traditional Japanese goals of sales growth and market share and concentrate instead on profitability. It has abandoned its target of 25 per cent of domestic market share. Operating margins will be doubled from 3 per cent last year to 6 per cent in the year ending March 2003. Costs will be cut by Y400bn (US\$43bn) by the end of 2001. Inventories will be slashed by Y250bn by 2000. In the search for greater profitability, Nissan will even "explore co-operative business relations with other companies on a global level".

Despite the rhetoric, doubts remain. It is far from clear that Mr Hanawa can deliver on his promises, and even if he can, it may be too little too late.

Nissan's problems are not new. Next Wednesday the company will announce net losses for the fifth time in six years. Since 1992 the company has posted aggregate losses of Y333bn.

The main problem is debt. Mr Hanawa said yesterday

Leasing cars in serious numbers has always been a tricky business, and Nissan's misadventures in the US are another example of what happens when companies get their sums wrong.

He was similarly vague about how he would achieve his target of cutting debt by Y1,000bn. There was talk of improved cash flow, the disposal of cross-shareholdings in other companies and the possible sale of the group's headquarters, but few details.

Mr Hanawa must now deliver on aggressive cost-cutting. There is plenty of fat in the organisation. Gross margins are just 25 per cent compared with Honda's 30.6 per cent, according to Morgan Stanley. He must also rid the group of loss-making operations such as Nissan Diesel, its truck business.

There appear to be opposition forces within the company itself. Details of the possible sale of Nissan's stake in Nissan Diesel to Daimler-Benz of Germany were leaked last week, driving up the quoted subsidiary's share price and almost derailing the deal. News of the sale of the prestigious Guinza headquarters was also leaked to the press.

The group is likely to be bumpy for the world's sixth largest automotive group, and Mr Hanawa has much to prove if he is to maintain the company's long-term independence.

The road is likely to be bumpy for the world's sixth largest automotive group, and Mr Hanawa has much to prove if he is to maintain the company's long-term independence.

The drop reflected crumbling US demand for traditional passenger cars, which comprise the bulk of Nissan's output.

Smyrna makes the Altima and Sentra, two mid-sized sedans, the Frontier pick-up and a coupe version of the Sentra called the 20X.

None of these vehicles forms part of the biggest and most profitable segments of the US market - large sports utility and beefy pick-up trucks. Nor does Nissan have a lightweight sports utility vehicle.

The company is not entirely absent from expanding segments, such as minivans, which have captured sales at the expense of conventional sedans. But it has been further hit by the fact that even its conventional US-built models have suffered declining fortunes.

The Sentra, its highest-volume model, which will be built exclusively in Mexico from next year, is ageing, while the newer Altima has not enjoyed the same popularity.

Only next year, with the transfer of Sentra production, will the Smyrna plant gain a new lightweight sports utility vehicle.

NEWS DIGEST

HONG KONG PROPERTY

Mingley to take control of Sing Tao Holdings

Mingley Corporation, a Hong Kong property group which developed Discovery Bay, is to take control of Sing Tao Holdings, the investment and publishing group, from Sally Aw, the chairman who inherited the business from her father. The deal, announced yesterday, is likely to lead to a general offer, which under Hong Kong rules is triggered once the 35 per cent holding is reached. A general offer would be made at the same price as that paid for Ms Aw's shares.

Mingley is to set up a new company in which Ms Aw will have a 49 per cent stake. This vehicle will buy Ms Aw's shares in Sing Tao for HK\$689.55m (US\$87.7m), or HK\$1.78 a share, a premium of about 23 per cent to the closing price of HK\$1.43 on Friday, when trading in the shares was suspended.

The new company is to be advanced on commercial terms, but bearing an interest rate of 2 per cent below the prime rate. The deal ends months of speculation. Ms Aw is understood to have been negotiating a sale of her interests since last year, but was frustrated by the impact of the Asian financial crisis.

The sale comes as executives of the company are facing fraud charges over inflating circulation figures of the English-language Standard newspaper. Ms Aw herself was named in the allegations brought by the anti-corruption body, but was not prosecuted.

Sing Tao is one of the few foreign publishers to have been granted access to China: the Chinese language Sing Tao was one of the earliest overseas newspapers circulated across the border. Louise Lucas, Hong Kong

MOBILE TELEPHONES

AT&T sells SmarTone stake

Shares in SmarTone, the Hong Kong mobile phone operator, fell more than 4 per cent yesterday after AT&T sold its entire 16.5 per cent stake in the company. The shares were placed to institutional investors at HK\$18.30 a share, a discount of 5.7 per cent against Tuesday's close of HK\$19.40.

Den Somers, AT&T chief financial officer, said the sale was part of the group's strategy to focus its portfolio of investments. Since the beginning of last year, it has generated some US\$12bn in cash from disposal of businesses.

The sale comes just two months after ABC Communications (Holdings), a Hong Kong paging and internet company, sold down its 12 per cent stake in SmarTone. Shortly after ABC's withdrawal, Town Kahn, an arm of China's former Ministry of Posts and Telecommunications - which has since been merged with other information ministries - trimmed its holding by about 2 per cent to 10.4 per cent. Yesterday SmarTone's share price closed down 85 cents at HK\$18.55.

Merrill Lynch arranged the share placement. Louise Lucas

OFFICE EQUIPMENT

Overseas sales buoy Ricoh

Ricoh, the Japanese photocopier and office equipment maker, reported record profits last year from buoyant overseas markets, despite slipping sales in Japan. The company also forecast higher sales and profits for the current year, although it said the domestic economic outlook was unclear, and conditions in Asia would stay adverse. Non-consolidated sales should grow 2.3 per cent to Y770bn (US\$86.6bn), and net profits 4.2 per cent to Y23.5bn. Consolidated sales are expected to rise 3.2 per cent to Y1,450bn, and net profits 5.8 per cent to Y32.5bn.

Consolidated results, which include contributions from subsidiaries such as Gestetner in the UK, last year benefited from a 19.8 per cent increase in photocopier sales outside Japan. Consolidated net sales were up 6.6 per cent, to Y1,403bn, giving pre-tax profits of Y68.4bn, up 2.3 per cent, and net profits of Y30.1bn, up 4.2 per cent.

Despite difficult conditions in the main market of Japan, where photocopier sales slipped 0.7 per cent and photographic equipment 21.3 per cent, overall non-consolidated sales rose 7.7 per cent to Y752.6bn, and net profits jumped 13.6 per cent to Y22.5bn, largely from rising exports. The dividend was cut Y1 to Y11. Bethan Hutton, Tokyo

WATCH MAKING

Citizen advances 40%

Citizen, Japan's largest watch manufacturer, achieved a 40 per cent increase in net earnings, up from Y9.7bn to Y13.7bn, in the year ending in March, because of strong exports. Watch sales, bolstered by high-margin timepieces such as the solar-powered Eco-Drive, rose 4 per cent to Y184.4bn, while sales of notebook computers and other information technology products fell slightly, from Y154.9bn to Y147.8bn.

Economic stagnation held down domestic sales, the company said. "The Japanese economy was in great difficulty as consumer spending sunk under such developments as a rise in consumption tax and confusion in the nation's financial system," it said. However, because the domestic market only represented a third of sales, the company was able to compensate with exports.

Pre-tax profits excluding exceptional costs rose 25 per cent to Y31.9bn, while net sales slid 1.7 per cent to Y385.4bn. The results were strengthened by export sales, coupled with the effect of the weak yen, the company said. In the current year consolidated net sales were expected to rise modestly to Y14bn, on sales up 9 per cent at Y380bn. The company said it planned to cut costs by restructuring management and production and to expand marketing activities. The dividend was maintained at Y9 per share. Alexandra Harvey, Tokyo

SEMICONDUCATORS

Kyocera profits tumble 32%

Difficult world markets for semiconductors and telecommunications equipment depressed sales and profits at Kyocera, the Japanese manufacturer of semiconductor products. Parent company sales fell 6.2 per cent to Y241.7bn (US\$26.1bn), leading to a 32.2 per cent fall in pre-tax profits to Y65.7bn, while net profits were 26.3 per cent lower at Y38.6bn.

Kyocera expects parent-company sales to jump 7.8 per cent to Y303bn, and net profits to recover to Y42bn, on the basis of new product launches in the second half.

Kyocera has been suffering from a move away from ceramic packaging for microprocessor units to lighter, cheaper plastics, particularly by its key customer, Intel. This led to a 14.4 per cent drop in semiconductor part sales, the company's core business. However, in the second half of the current year Kyocera will put into full production its newly developed plastic MPU packages.

Telecommunications equipment sales fell 20 per cent, mainly because of price erosion in the Japanese mobile phone market, but Kyocera is planning to remedy this with the launch of new telecommunications equipment in the home and overseas markets.

Kyocera also blamed last year's steep profit falls on heavy investment, particularly in development of telecommunications products.

Better performance overseas meant that consolidated sales rose slightly, up 1.5 per cent to Y725.3bn, and net profits rose 3.1 per cent to Y47.7bn, but pre-tax profits dropped 9.5 per cent to Y105.4bn. Kyocera said the sales increase was helped by the strong performance of AVX, a capacitor-making subsidiary in the US. Bethan Hutton, Tokyo

HK downturn leads developers to fight dirty

By Louise Lucas in Hong Kong

Hong Kong property developers have sparked a price war and resorted to aggressive poaching to win over the dwindling band of buyers in the territory.

The battleground is Tsing Yi Island, a former graveyard now blanketed with housing estates. Cheung Kong, controlled by the tycoon Li Ka-shing, threw down the gauntlet on Monday when it launched its Tierra Verde flats at about HK\$4,150 (US\$535) a sq ft. The price was about 10 per cent below market expectations, reflecting the moribund state of the sector.

Cheung Kong's move



prompted 12 per cent price cuts from Sun Hung Kai Properties to HK\$3,750 a sq ft, while Henderson Land cut the price of flats in two of its developments by 7 per cent.

Last night Wheelock joined in, cutting the price of flats in its Galaxy development on the Kowloon peninsula. Residential prices are already 35 per cent off their

peak last July, and as the economic slowdown engulfs Hong Kong, few analysts see an upturn in the next 12 months.

Developers are also resorting to more devious methods. Agents are stationed outside rival's developments to lure potential buyers to their employers' properties. Cheung Kong even lays on coaches, according to one agent.

"This price war is very intensive. When the market was bad in the early 1990s, developers would not do such things," says Shih Wing-ching, managing director of Centaline Properties, Hong Kong's biggest domestic agency.

The difference is attributable in part to the protracted economic slowdown - economists expect growth of about just 1 per cent or 2 per cent this year, and unemployment is at a 14-year high -

and high interest rates.

Hong Kong also has a buoyant supply of property and a government housing policy which, the developers say, fails to take into account weakening demand.

Tung Chee-hwa, Hong Kong's chief executive, made affordable housing one of his first promises on assuming office in July last year and has shown little inclination to renege on plans to build 85,000 flats a year, of which 50,000 will be public.

Yesterday Mr Tung said that the government was "extremely concerned about any rapid fall in the property market, because the stability of the property sector is very important to Hong Kong's overall stability."

However, analysts caution that Matsushita's prospects might be worse than expected, because of low demand for home electronics and a fall in mobile phone prices. Andrew Haskins, analyst at HSBC Securities Japan, said: "We think the company's forecasts may be a bit optimistic."

Domestic sales slipped 4 per cent to Y4,054bn as falling demand for home appliances hit profits across Japan's consumer electronics sector. Home appliances account for nearly one-third of Matsushita's domestic sales.

However, brisk sales of information technology and video equipment, supported by a weak yen, led to a 10 per cent rise in overseas sales to Y3,997bn. Overseas sales at 51 per cent of turnover, surpassed domestic sales for the first time.

It said consolidated net earnings should rebound 37 per cent to Y12.8bn, on sales up 1 per cent at Y8,000bn. The company, which said it would pay a Y12.5 dividend

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SETTING A HIGHER STANDARD

Coca-Cola Beverages will look east

By John Willman

Plans for the London flotation of a new company to bottle and distribute Coca-Cola in eastern and central Europe are due to be announced today, barring last-minute delays in the Australian courts.

Coca-Cola Beverages will operate in 10 countries of the former communist bloc. The July flotation is likely to value the company at about £1.5bn (£2.5bn), making it a constituent of the FTSE 250 index and a must-buy for index-tracking funds.

The formation of the company, announced in February, offers investors a chance to invest in a consumer goods company operating in eastern Europe. Its territory will include Poland, Belarus, Ukraine and Romania. It will also operate in Austria, Switzerland and northern Italy.

Most of the company is the European operation of Coca-Cola Amatil, the Australian bottler that distributes Coca-Cola in the Asia-Pacific region. Court approval is necessary for the demerger of Amatil, which will give shareholders in Coca-Cola Beverages.

Many existing sharehold-

ers – including San Miguel, the Philippine company which owns 25 per cent of Amatil – are unlikely to want to hold shares in a European bottler. The flotation will allow them to sell their new shares in the market through bookbuilding exercise managed by SBC Warburg Dillon Read.

Coca-Cola Beverages will also acquire the franchise for northern and central Italy, and including Rome, from the Coca-Cola parent company. The price has not yet been disclosed, but is likely to include some shares which – added to its 33 per cent stake through Amatil – will give Coca-Cola more than the new shares.

In time it is likely to reduce this stake, in line with its approach in the other anchor bottlers such as Amatil. The Atlanta-based group has been consolidating operations worldwide, and with Coca-Cola Beverages will have four anchor bottlers in Europe. The other three are:

- Coca-Cola Enterprises, which covers France, the UK and the Benelux countries
- Coca-Cola Nordic Beverages in Scandinavia, and
- Coca-Cola Erfrischungsgetränke in Germany.

Brit Biotech report findings

By Jonathan Guthrie

A confidential report commissioned by British Biotech, the former flagship of the UK biotechnology sector, suggests that directors dealt in its shares despite strong doubts on the progress of critical drug trials, which were not shared with investors.

The report, written by the law firm Cameron McKenna last month, clears the directors of breaching stock exchange rules. These require directors to cease dealing in shares when an official announcement of price sensitive information is likely.

However, the lawyers' report says that "in hindsight, it may be argued" that in January 1995 when a number of directors sold shares "there existed a matter which constituted unpublished price sensitive information". A slew of worrying side effects had emerged in drug trials that were aban-

doned shortly afterwards.

According to the report, the trials were already "deliberately poised" by January 10, when an independent group of doctors running the trials met to discuss progress. Three directors of the company made big share disposals on January 17 1995, all at 55.25 a share, through Dresdner Kleinwort Benson, the company broker.

The deals are being scrutinised by the stock exchange. Just seven days later the company suspended recruitment of patients to phase III pivotal trials of the anti-cancer drug batimastat because of worrying side effects. On February 17 the company announced it was suspending the trials, triggering a fall in the shares.

However, Mr McCullagh told the FT yesterday: "There was no expectation on behalf of the directors or the managers in the company that these trials would be suspended."

BT held back by price fall

By Alan Cane

Intensifying competition, falling prices and investments overseas kept the lid on growth at British Telecommunications last year.

Although sales edged ahead 4.7 per cent to £15.5bn (£25.7bn) pre-tax profits were flat at £3.22bn (£3.2bn).

The results for the year to March 31 were affected by two exceptional items.

BT received a fee of £220m from US telecoms group MCI after the collapse of merger negotiations, but was obliged by the UK government to pay a windfall tax charge of £510m. As a result, after-tax profits fell 17.6 per cent to £1.73bn.

The results were broadly in line with market expectations, and the shares closed only slightly down, falling 2.4p to 638p.

Carlton beats City forecasts

By Cathy Newman

Carlton Communications, owner of three ITV franchises, defended the performance of its terrestrial television interests as it turned in interim results above City expectations. "People are underestimating the strength and resilience of ITV," it said.

The comments came as Carlton unveiled pre-tax profits for the six months to March 31 up 4 per cent at £165.7m (£277m). That included £6.2m digital television costs. The figures also included a £9.6m profit on the sale of the company's interest in Getty Images.

Carlton's products businesses suffered from the strong pound and the turmoil in Asia. The shares rose 23p to 517p.

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NOTICE IS HEREBY GIVEN pursuant to Section 17 of both of the Fiscal and Paying Agency Agreements governing the above described notes, that General Electric Capital Corporation, as issuer, and the Bank of Montreal, as paying agent, have been ordered and directed by the United States District Court for the Middle District of Florida, Jacksonville Division to stop payment on the above described notes and all outstanding coupons appurtenant thereto.

Dated: May 21, 1998
GENERAL ELECTRIC CAPITAL CORPORATION
BANK OF MONTREAL

COMPANIES & FINANCE: UK

ADVERTISING MARKET EXPECTS CLEAR CHANNEL TO RAISE OFFER IF MMC IS CALLED IN

Bet on US comeback for More

By Andrew Edgcumbe-Johnson

Clear Channel Communications of the US is expected to raise its £246m (£375m) offer for More Group if the UK outdoor advertising group's rival suitor, Deccaux, is referred to the Monopolies and Mergers Commission today.

Margaret Beckett, the trade and industry secretary, is expected to rule whether the French group's £275m bid should be cleared, or investigated by the MMC. Most analysts expect a reference, although Deccaux has insisted that its bid raises no competition concerns.

Analysts and investors

said yesterday that Clear Channel would have to raise its terms from £10.20 a share to at least the £11.10 level offered by Deccaux to win the recommendation from the Monopolies Group.

"The market is betting that the Americans will come back with more," said Lorna Tilbain, media analyst with Panmure Gordon. More's shares were unchanged yesterday at £11.16 – slightly above the level of the Deccaux offer.

Other analysts added that, should Deccaux be faced with an MMC investigation which could last for six months, it would probably tell shareholders that, were it to be

cleared, it would return with a higher offer.

Such a renewed bid would have to be above £12, analysts said, given the delay and risk investors would face if they chose to wait for Deccaux to return.

Should Mrs Beckett clear the Deccaux bid, which would give it control of nearly 90 per cent of local authority bus shelter contracts in the UK but just a quarter of the broader outdoor advertising market, analysts said Clear Channel may yet return with a higher offer.

Such a move could spark off a second round of bidding battles which has to date been notable for namecalling

and a considerable amount of lobbying.

It would also attract closer attention to the finances of Deccaux, and its ability to take on debt to finance a higher bid. Jean-François Deccaux, the group's chairman, said last week that the private company has about £200m of cash.

Deccaux has consistently said it would be able to pay more than any other group, because it is not answerable to outside shareholders. The group is 100 per cent owned by the family of Jean-Claude Deccaux, who invented bus shelter advertising and the automatic public convenience.

Will Michael Green be as good at building businesses as he is at milking Carlton Communications' existing ones? ITV, video duplication and the like are good cash cows; the group generated over £100m during the six months to end-March and is sitting on net cash of nearly £200m. But these businesses have few growth prospects. Hence, the challenge is to find new avenues for growth. The main initiative – digital terrestrial television – is fairly promising. British Digital Broadcasting, in which Carlton has a 50 per cent stake, is well-positioned to provide a cheap and cheerful service that will expand the market beyond the confines so far exploited by British Sky Broadcasting.

There are, of course, risks. BSkyB may not be happy with a high-margin, low-volume niche. If it counter-attacks aggressively on price and marketing, BDB could soon be shredding its business plans.

Nevertheless, this is just the sort of risk Carlton ought to be running.

The group is coy about what other initiatives it has in mind. It might conceivably apply for one of the next generation of mobile telecoms licences. A bigger push into TV programming might also be logical, though recent allegations that one of its documentaries was a fake may have dented its confidence. At any rate, share buy-backs are rightly on the back burner.

BT

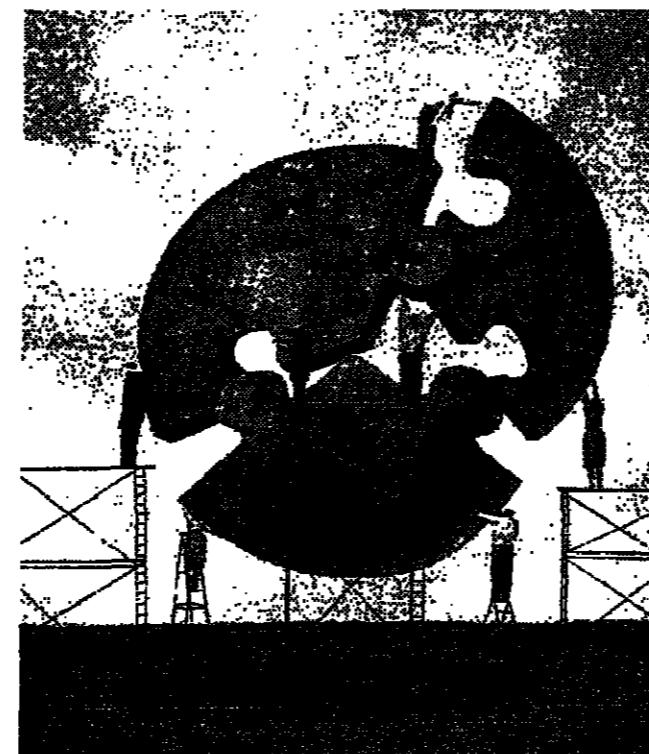
It is giasmotic BT-style. The veil is slowly lifting on its European investment programme. And Cellnet, BT's sluggish mobile subsidiary, is at last acknowledged as lacking competitive edge. Both are signs of the beneficial effect on BT's style of the shock of losing MCI to WorldCom.

BT's promise of greater openness is a sensible, if belated, response to scepticism about its international expansion plans. While details will only be released next month, BT's bullishness on its continental investments is encouraging. Start-up losses, running at some £300m, will peak this year and most ventures will break even within 3 to 5 years.

Sustaining such losses hardly puts pressure on BT's balance sheet and should put the company in a strong position to get on the ground floor of the liberalised European market. The contrast with the US – where the price of entry is prohibitive – is stark.

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MANAGEMENT & TECHNOLOGY

INTERVIEW JOHN PEPPER, PROCTER & GAMBLE CHAIRMAN AND CHIEF EXECUTIVE

Proctoids' new, improved future

Polishing the image of the household products group is one thing; the real battle is for innovation and growth, writes Richard Tompkins

"Oh, you'll like John Pepper," says a Procter & Gamble staffer at the company's headquarters in Cincinnati, Ohio. "He's a real down-to-earth, friendly kinda guy." Or as another employee puts it: "You'll like John. He's a real friendly guy - real down-to-earth."

Friendly? Down-to-earth? The chairman and chief executive of Procter & Gamble? Five years ago, a business book about the company portrayed it as a sinister, paranoid institution obsessed by secrecy and control. Employees were described as blue-suited "Proctoids" whose lives, appearance and behaviour were policed by company bullies and spies. The then chairman and chief executive, Ed Artzt, was nicknamed the Prince of Darkness.

In keeping with this image, the company's headquarters building is a grim, brooding monolith looming over downtown Cincinnati. But there are some mild surprises inside.

For a start, many employees appear to be happy. In at least two departments, birthdays are being celebrated. In a meeting room called the Idea Factory, people are encouraged to wear silly hats and play with wacky toys. Most disconcerting of all, everyone is wearing casual clothes.

The disappointments extend to the 11th floor executive offices, where Mr Pepper, 59, cuts an unlikely figure as a commissar. A gentlemanly consensus-builder, he talks a lot about people, respect and doing the right thing. And yes, he comes across as a friendly, down-to-earth kinda guy - but one with ambitious goals for extending P&G's products still further into the nooks and recesses of people's lives.

Describing the book about P&G as "a bunch of garbage", Mr Pepper laughs off its portrayal of his predecessor as demonic. When Mr Pepper joined the company in 1963, he says, Mr Artzt, far senior to him, spent hours teaching him

about the business. "I had some of the most cockamamy proposals I wanted to do. I had some really crazy ideas, and he let me do them."

"So he was a teacher. And yes, his style was different than mine. I don't think there have been any CEOs in this company whose styles have been exactly the same. That's probably good, if you believe in diversity - and I happen to, as long as the basic values are right."

Mr Pepper is bashful when it comes to discussing the changes he has made since succeeding Mr Artzt three years ago. "I find it hard to comment on, in a way. It sounds so individual," he says. "Much of what we've been doing is on a continuum."

Still, Mr Pepper does seem to have turned P&G into a more people-friendly organisation. "I want to see people enjoy themselves, and the reason we moved to this casual dress, or business appropriate attire as we call it, is a feeling that maybe in some way it would let people be themselves more and do what they wanted to do," he says. "This has not changed the fortunes of the company. But I'm glad we did it."

So what will change the company's fortunes? Although P&G's net profits rose a respectable 12 per cent to \$3.4bn in the year to June 1997, its revenues rose only 1 per cent to \$33.5bn. Mr Pepper is on a mission to reinvigorate growth: he aims to double revenues in the next 10 years.

If that sounds a lot for a company already so large, it is less than Coca-Cola and McDonald's, two other US consumer goods companies, have achieved in the past decade - thanks in large part to the opening up of vast new markets around the world.

But there is an important distinction between these companies. In a list of the world's top brands published by the Interbrand consultancy last year, McDonald's and Coca-Cola ranked first and second respectively. P&G's highest ranking

brand was the recently acquired Tampax at number 21.

In a sense, Coca-Cola and McDonald's do not have to do anything very imaginative to increase revenues. Their colas and burgers are not necessarily the best - others score higher in taste tests - but they are the world's most wanted. So their basic strategy amounts to making sure as many people as possible can get their products.

P&G does not have the luxury of these universally sought-after brands. It has to battle for every extra dollar by inventing "new, improved" products - striving to make household goods that genuinely do the job better than those of its rivals, then charging a premium price for them.

Unlike Coca-Cola, for example, which has hardly changed Coke's formula in more than a century, P&G has changed its Tide detergent 30 times in the past 50 years. "We live or die by product innovation and technology," Mr Pepper says. "We know that if we don't have it, we can't grow the business in North America. Nor can we succeed in China or Russia the way we need to."

Of course, Procter & Gamble has always been an innovator. Its Dreft was the first laundry detergent, Crest the first fluoride toothpaste on the mass market. Pampers, the disposable nappies, and Head & Shoulders, the anti-dandruff shampoo, were also mass-market firsts.

But in recent years, the pace of blockbuster innovations seems to have slowed. Apart from Olestera, a non-fattening fat that passes through the body without being digested, P&G has produced few revolutionary ideas. And in some existing categories, it has struggled to maintain market share - notably in toothpaste, where Crest has been trounced by new products from other companies.

Mr Pepper defends P&G's record. The company files more patents each year than almost any company in the world, including high technology companies, he says. It spent \$1.3bn on research and development in the year to last June, up 5 per cent from the year before at a time when other expenses were cut.



Still, he says, P&G cannot afford to be complacent on innovation. "There are a lot of areas where we have to accelerate it," he concedes. In particular, that means pushing hard to bring out more "new to the world" products, creating whole new categories or entirely new categories that did not previously exist.

Three examples, already being test-marketed in the US, are Dryel, a product that allows people to dry clean their clothes at home in a tumble drier; Febreze, a spray that gets rid of odours on clothes and home furnishings; and ThermoCare, a pain-relieving, heat-releasing pad that can be wrapped around aching muscles and joints.

Significantly, says Mr Pepper, the last of these draws on the company's knowledge of paper, chemical and analgesic technologies. "A focus today is on sharing technologies across our businesses to a level we have never done before. We're very diverse across food, healthcare, paper products and laundry, and we're trying to see how we can carry technologies from one to another

is proving very fruitful." Mr Pepper predicts that within the next 12 months, P&G will be test-marketing another three or four products representing either substantial reinventions of existing categories or entirely new categories. "We are looking at things that are truly new, truly breakthrough," he says.

He also wants to achieve drastic reductions in lead times for product launches. "It's one thing to invent these things; it's another to get them into the market faster," he says. "We know we have to reduce our lead times from identification of technology and product application to taking the product globally. We need to compress that by orders of magnitude, cutting it in half."

In spite of his softer, kinder image, Mr Pepper gives no indication that P&G will become any less aggressive.

"I wouldn't express any objective we have as wanting to be a lovable company," he says. "We want to be an admired company. But I want people to love our brands."

Gene linked with physical fitness is identified

Scientists at University College London have identified a gene associated with physical performance in humans.

The researchers looked for natural variants or "alleles" of the gene for an enzyme called ACE that is involved in regulating blood pressure. They found evidence that the I type of the ACE gene, rather than the D type, is associated with human endurance, according to a report in today's *Nature*, the international science journal.

They found that the I type was far more strongly represented among 32 high altitude mountaineers who can climb above 7,000m without breathing apparatus. They also found that the I type alleles were associated with army recruits who performed well in repetitive weight lifting.

The researchers believe the finding could be significant in treating stroke and cardiovascular disease. If the gene works by making cells more efficient, it might stop them from dying when their fuel supply is reduced.

University College London, UK, tel (0171) 2096985; fax (0171) 2096121.

Robots adapt to food processing

Robots have been used in the car and electronics industries for years. But the food industry - and, in particular, the poultry industry - has made comparatively little use of them.

Georgia Tech researchers are developing a low-cost robot that can handle materials with the same speed and dexterity as humans. The robot, called the Intelligent Integrated Belt Manipulator, is capable of removing items from a conveyor belt and transferring them into a packing carton for

The job performed by the robot is highly repetitive. As a result, it might cut down the incidence of repetitive strain injuries suffered by workers in the poultry business.

The researchers are in preliminary discussions with private companies about commercialising the technology. Georgia Institute of Technology, US, tel 404 894 8057; <http://www.gatech.edu/cco.html>

Umbilical cord in blood transplants

Patients suffering blood depletion from genetic disorders or the treatment of diseases such as leukaemia and AIDS may eventually be able to replenish their supplies by blood from discarded umbilical cords, writes Victoria Griffith.

Aastrum Biosciences, a biotechnology company based in Michigan, announced positive results from early clinical trials using such transplants. If all goes well, umbilical cord blood may eventually take the place of bone marrow transplantation, use of which is limited as the marrow must be exactly matched to the donor.

Umbilical cord blood is rich in stem cells, which are responsible for the rapid production of white blood cells, essential to fight infection, and platelets, which aid clotting. Because the blood is in a pure form, patients do not need to be precisely matched to donors. The product will be available in Europe at the end of this year.

Aastrum, US, tel 313 930 5555; jenifer.north@ccsraid.au; <http://www.aastrum.com>; VGriffith@ccsraid.au

Farmers may grow chemicals

Plants could become a valuable source of raw materials for certain industrial chemicals and polymers, according to a team of international scientists who have identified genes capable of processing chemicals within the plant.

He also wants to achieve drastic reductions in lead times for product launches. "It's one thing to invent these things; it's another to get them into the market faster," he says. "We know we have to reduce our lead times from identification of technology and product application to taking the product globally. We need to compress that by orders of magnitude, cutting it in half."

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Vanessa Houlder

TECHNOLOGY INTERVIEW ED STAiano

Worldwide connector

Christopher Price on Iridium's plans to launch the first satellite handheld mobile telephone

Ed Staiano is not the kind of man to let the political fallout from some nuclear bombs stand in his way.

The chief executive of Iridium, which will launch the world's first satellite handheld mobile phone system in September, was about to sign an agreement with the Indian telecommunications authorities last week when the nuclear tests took place and US sanctions were imposed.

"We have had other frustrations and have overcome those, and we will find a way through this one," says the 61-year-old former Motorola executive.

Solving problems and finding solutions have characterised Mr Staiano's 18 months as head of Iridium. These have ranged from dealing with radio astronomers angry at possible radiation leaks from Iridium's 70 low earth orbiting satellites affecting their activities to raising \$5bn for the global mobile project.

Under his tenure, the company has grown from an offshoot of Motorola, the US electronics group, into a company with a stock market value of \$675m, while putting into place a system that will allow mobile phone calls from anywhere in the world.

Perhaps as significantly, the company has radically altered its business plan so that instead of competing head-on with terrestrial mobile phone operators, it will partner them.

"I changed the strategy a month after taking over," says Mr Staiano. "I knew straight away that it did not make economic sense to compete with cellular, which would be able to beat us on capacity, as well as pressure on our price."

Iridium has signed agreements with 200 mobile operators in 80 countries. Some signatories have bought



Ed Staiano: some calls will be as little as 30 cents a minute

FT GUIDE TO THE WORLD HEALTH ORGANISATION

Global advocate for health gets a shot in the arm

Many hope the newly elected head of the WHO will restore morale and provide fresh direction, says Frances Williams

Why is the WHO in the news and what is WHO anyway?

The WHO - the World Health Organisation - has just held its annual assembly to celebrate its 50th birthday and to elect a new director-general to replace the unpopular Hiroshi Nakajima of Japan. The safety of Harald Brundtland, former Norwegian prime minister, will take over at the helm of the 191-member WHO in July. All has not been well with WHO in recent years. Many people hope Dr Brundtland will inject new vigour into the middle-aged United Nations agency.

So what ails WHO?

Basically WHO's problems can be split into two parts. The first concerns the erosion of its pre-eminent role in world health issues. The second relates to how the organisation is structured and managed.

OK, let's start with the big picture.

By this time, though, Iridium will be facing competition from at least two other satellite-based systems.

ICO, an offshoot of Inmarsat, the international satellite organisation, plans to launch in 2000. Globalstar, which is backed by Loral, has said it will begin operations next year.

However, because Iridium

plans to have partners in

almost every country,

the company may act as broker

and intermediary between

two operators without their

own roaming agreements.

In addition, Iridium's technol-

ogy, situated in its ground

stations, will allow it to

translate between the various

incompatible systems, without

using the satellite service.

Such potential underpins

Mr Staiano's prediction that

the company will be cash

flow positive by the end of

its first year and profitable

shortly afterwards.

He also contends that by

2002, Iridium should have

paid off its \$3bn debt and

have enough funds to pay

the estimated \$3bn cost of

the company's strategy.

Not surprisingly, Mr

Staiano disputes Mr Crossman's cost figures and

points to the sharp rise in

the company's share price

since its initial public offer

last year as evidence of

the rest of Wall Street's belief in

the company's strategy.

Why?

"Lifestyle" diseases raise

more complex issues and

WHO has a less obvious role.

Its \$420m-a-year regular

budget is no more than that

of a medium-sized hospital

in a western country and

in a developing country.

EQUITIES

Europe's high days and holidays

EUROPEAN OVERVIEW

By Philip Coggan, Markets Editor

Europe cruised into today's Ascension Day holiday in fairly buoyant mood with bourses in Brussels, Frankfurt, Paris and Vienna recording all-time highs.

Markets were given an initial lift by the US Federal Reserve's decision on Tuesday not to raise interest rates.

In the afternoon, a wider-than-expected US trade deficit helped US Treasury bonds and gave a knock-on lift to the European bond

markets. A trade deficit lowers the rate of gross domestic product growth and may reduce the chance of a subsequent rise in US rates.

The FTSE Eurotop 300 index rose 7.89, or 0.7 per cent, to 1,225.22. The FTSE Eurotop 100 index gained 15.6 to 2,809.96.

An even stronger performance was turned to by the FTSE Eurobonds 100 index, which comprises stocks traded in likely euro member countries - it rose 12.3, or 1.2 per cent, to 1,028.92.

As part of the preparations for the introduction of the single currency, the London International Financial

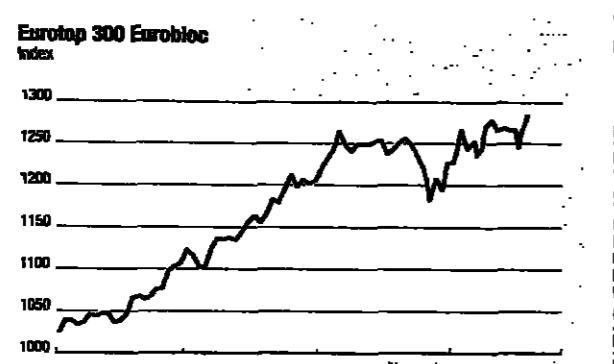
Futures Exchange said it would introduce euro-dominated government bond contracts for Germany and Italy in June.

The automobile sector was once again the strongest in Europe, with a scrip issue from BMW being greeted with acclaim by investors. Volkswagen hitched a ride on its German rival's strength, gaining Ecu 14.4 to Ecu 749.19.

Newspaper speculation that ABN Amro might buy Bear Stearns of the US - although denied by the Dutch bank - sent its shares up Ecu 0.8 to Ecu 23.26 in busy trading.

Strong retailers

Retailers were also strong, with the sector gaining 2 per cent. The sector is dominated by British groups but



FTSE Eurotop 300 Eurobonds index

Source: FTSE International

1000

1100

1200

1300

1400

1500

1600

1700

1800

1900

2000

2100

2200

2300

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2500

2600

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INTERNATIONAL CAPITAL MARKETS

Markets lifted as Asia crisis hits US trade

GOVERNMENT BONDS

By Jeremy Grant in London and John Labate in New York

Relief that the Federal Reserve left interest rates unchanged, and a sharp rise in the US trade deficit, lifted bond markets yesterday as investors saw first signs that the Asian crisis was washing up on US shores.

European bonds had a busy session, rallying on the conviction that the developments pointed to steady interest rates, with French 10-year bond yields falling below 5 per cent again to levels achieved earlier this month.

German bond futures broke through technical resistance and in the UK, gilts received an added boost

with the successful auction of £3bn of 30-year stock.

The US Commerce Department said the trade gap widened to \$13.03bn in March, against an expected narrowing to \$11.65bn, the first sure sign that the Asian crisis is helping to slow US economic growth. The figures revealed exports to Asia were slowing, while imports from the region had picked up.

"More imports from Asia suggests disinflationary effects are still feeding through, which will keep inflation down - which is good for bonds," said Jeremy Hawkins, chief economist at Bank of America.

Analysts said markets would be on edge today, awaiting signs from India of either continued political stalemate or a fresh

bout of unrest, which would spark further flight to quality and boost bond prices.

Active hedge fund buying sent prices rallying in US TREASURIES.

The 30-year bond, the benchmark for long-term interest rates, had climbed 51/2 early afternoon to 103.4, sending the yield lower to 5.87 per cent.

The price of the 10-year note traded 1/2 higher to 100.0, yielding 5.608 per cent, while the two-year note gained 1/2 to 100.0, yielding 5.54 per cent.

The trade data helped the morning market, although trading had slowed by mid-day. "The trade balance figures indicated a [potential] downward revision to GDP [gross domestic product], and that's a slight positive,"

said Tom O'Connell, senior government trader at First Chicago Capital Markets.

German BUND futures broke through technical resistance of 107, with the 10-year contract settling at 107.28, up 0.33, in London, while in Frankfurt trading volume reached 445,000 contracts.

The spread of 10-year Treasuries over bonds widened to 77 basis points initially, then fell back to 75 basis points.

The release of figures showing that German money supply had slowed in April after expanding the previous month offered support for the view that no interest rate change could be currently justified.

The Bundesbank said M3, its main policy indicator,

grew at an annualised 4.7 per cent last month against 5.1 per cent in March.

One bond analyst said any fight to a standstill as a result of Indonesian woes would most benefit the German currency and bonds. "People are going to be waking up and looking at Indonesia," he said, noting continued interest from investors in five-year dated bonds. "German insurance companies and other domestic are afraid of the short end of the yield curve, so they're going for the least risky area."

UK GILTS closed higher, boosted initially by a strong performance of US Treasuries, and swept forward after the successful auction of 30-year government bonds, which was covered 2.26 times.

The 10-year future settled 31 basis points higher at 108.08 with volume of 135,000 contracts traded - the second highest level for the June contract. In the cash market the spread over bonds was unchanged at 104 basis points.

However, traders will today be watching for retail sales figures for April, which are expected to reveal stronger high street sales.

David Coleman, chief economist at CIBC World Markets, said: "That [the auction] was another feather in the cap for the gilt market. There seems to be some underlying demand for gilts. The one short-term risk is that we see some stronger numbers tomorrow and the yield spread does push a little wider."

NEWS DIGEST

EUROBONDS

Bulgaria expected to launch \$250-\$300m issue

Bulgaria is gearing up to launch its inaugural eurobond, which is expected to have a five-year maturity and raise between \$250m and \$300m. J.P. Morgan and Merrill Lynch are acting as advisers.

The issue was originally planned for last autumn but delayed in the aftermath of the Asian crisis. Alexander Bozhkov, deputy prime minister, said the government expected to take a decision in the next few days.

Speaking at an investment conference in London organised by fund managers Regent Pacific, Mr Bozhkov said that the borrowing was essentially to establish a benchmark which recognised the positive transformation in the economy over the past year, particularly since the introduction last July of a currency board pegged to the D-Mark.

"Foreign currency reserves have surged to over \$2.5bn. We are going to programme with the International Monetary Fund and World Bank and growing support from the European Bank for Reconstruction and Development. We also expect foreign private investment of around \$1bn this year both into privatisation and greenfield projects," Mr Bozhkov said.

"We don't really need the money. But we want to establish a benchmark in view of the heavy infrastructure and other investment needed to modernise the economy."

Bulgaria has already obtained a B2 positive outlook rating, from Moody's and a B+ rating from Fitch-IBCA. This puts Bulgaria in a similar position to Argentina and Brazil, whose sovereign bonds are currently trading in a range of between \$30 and 400 basis points range above US Treasuries. Anthony Robinson

MILLENNIUM BOMB

Moody's warns Japanese banks

Japanese banks could suffer dramatic disruption in the year 2000, as they have failed to address the potential millennium computer bomb, according to a report from Moody's Investors Service.

Moody's argues that "unlike other global banks, the Japanese say that they do not have any major problems, and how they achieved that happy state of affairs is something of a mystery."

Many computers and microchips will fail to differentiate between 1999 and 2000 and could break down over the Millennium. Citicorp, of the US, has already announced it will spend \$600m on making its computer systems recognise the year 2000 and Barclays Bank, of the UK, is to spend \$400m.

In a recent survey, 49 Japanese banks had announced plans to spend \$249m in total, raising concerns over potential damage to the financial system from computer problems.

Moody's says Japanese banks may be too weighed down by problems with the domestic economy and the extent of their bad loans to look as far as potential problems in 2000.

Simon Davies, Capital Markets Editor

Unchanged US rates give fillip to trade

INTERNATIONAL BONDS

By Edward Lucas

The market took its cue yesterday from the decision on Tuesday to leave US interest rates unchanged, with one of the busiest days in the primary sector for weeks.

ITALY led the charge with its first fixed-rate dollar offering in almost two years. The 10-year \$2bn issue was originally earmarked as a \$1.5bn offering. Lehman Brothers and Goldman Sachs, lead managers, also tightened the launch spread from a planned 34 basis points to 33 basis points.

"Sovereign paper is very rare nowadays, so investors were enthusiastic," said one official. The bond, Italy's first 10-year dollar offering since 1993, tightened by

about half a basis point.

FEDERAL HOME LOAN BANKS also took advantage of the rejuvenated atmosphere with a two-year \$1bn offering.

Barclays Capital, sole lead, said investors were attracted by its short duration, since the US Treasury curve is so flat between two and five years.

The bond, which tightened by about one basis point from its launch spread of 17 basis points, was also aided by the US Treasury's recent decision to tighten issuance at the short end of the curve.

DOLPHIN TELECOM, the wholly-owned subsidiary of Telesystems, the Canadian company, launched a rare euro-denominated high-yield bond yesterday.

Proceeds from the €23m offering, which combined

with a simultaneous US\$263m offering, will go towards the construction of a digital mobile network in the UK, Germany and France.

The 10-year bond was offered at a deep discount and will not pay a coupon in its first five years. Assuming it is not called, it will then pay a spread of 655 basis points over the euro benchmark. It was lead managed by Bear Stearns and CIBC.

NATIONAL AUSTRALIA BANK also braved the fledgling euro-denominated market with the first bond in euros by an Australian borrower. SBC Warburg, lead manager, said NAB wanted to exploit the mismatch between demand and supply in the euro sector. The three-year €400m offering was priced flat to Ecu Libor.

New international bond issues

Borrower	Amount	Coupon	Price	Maturity	Fees	Spread	Book-ratings
US DOLLARS							
Republic of Italy	200	6.00	92.75/95	May 2003	0.25/0.25	+350/350	Moody's/Chambers Capital
EURO							
Federal Home Loan Banks	100	5.025	94.00/94.25	Jun 2003	0.25/0.25	+100/100	Moody's/Chambers Capital
EURO							
ECCO No 1, Class A0	500	5.500	92.55/91	Jun 2003	0.25/0.25	+350/350	Barclays Bank Frankfurt
ECCO No 1, Class B0	91,361	5.500	92.55/94	Jun 2003	0.25/0.25	+350/350	Barclays Bank Frankfurt
STERLING							
Bank of Canada	250	(6)	92.75/92	Aug 1999	0.10/0	+340/340	JP Morgan Securities
GECC	100	7.000	92.75/92	Aug 1999	0.10/0	+340/340	Barclays Capital
FRANC							
SocGen	1,750	5.125	98.43/98	Jun 2010	0.35/0	+100/100	SG Paribas
Argentaria (Global Finance)	300	100.000	98.00/98	May 2008	0.00/0	+100/100	JP Morgan Securities
ITALIAN LIRE							
World Bank	1000	(8)	100.000	Jun 2003	0.40/0	+100/100	SBC Warburg DR
SWISS FRANC							
Province of British Columbia	300	3.00	102.60	Jan 2004	2.25	+100/100	SBC Warburg DR
NEW ZEALAND DOLLAR							
Bayernische Versicherung	100	8.00	101.24	Jun 2001	1.50	+100/100	RBC Dominion Securities
NEW ZARDA							
BNG	100	8.25	99.85/99	Jun 2001	0.25/0	+100/100	ING Bank
NEW ZARDA							
Yester	100	8.25	99.85/99	Jun 2001	0.25/0	+100/100	ING Bank
NEW ZARDA							
Yester	100	8.25	99.85/99	Jun 2001	0.25/0	+100/100	ING Bank
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Yester	100	8.25	99.85/99	Jun 2001	0.25/0	+100/100	ING Bank
NEW ZARDA							

CURRENCIES & MONEY

Wider trade gap pushes dollar lower

MARKETS REPORT

By Robert Choi

An unexpectedly big US trade deficit pushed the dollar lower against the D-mark yesterday, while the Japanese yen took some comfort from the uneasy calm which has followed recent violent protests in Indonesia.

Trade figures normally have more impact on the dollar's exchange rate than the yen, rather than the D-mark. But not this time. The dollar fell 1.5 pence to DM1.77, but was steady at Y136.1.

The US trade deficit widened by 7 per cent to \$13bn in March, compared to market expectations of less than \$12bn. "It is the strength of the American economy and the economic difficulties facing certain Asian countries that are driving much of the changes in these numbers", said Robert Shapiro, commerce under-secretary.

The dollar fell on the per-

ception that imports are going into inventories and in this time will weaken domestic production. This in turn would ease pressure for higher interest rates.

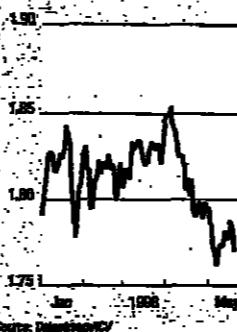
Marc Chandler, with Deutsche Morgan Grenfell in New York, noted that the reaction of the currency to current account movements was not clear-cut and that the capital account was key.

Investors anxious about the dollar might be concerned about the apparent excess dollar holdings of European central banks and the perception that Europeans might keep their capital at home to use in a broadening equity market.

Mr Chandler predicted that the dollar might head back above DM1.80 in the

next few days. The Swiss franc was also undermined as it

Dollar
Against the D-Mark (DM per \$)



Some of its attraction as a safe haven from problems in Indonesia and Russia.

Meanwhile the D-Mark also made ground on the Norwegian krone, closing at Nkr4.216. Investors were disappointed that Norwegian interest rates have not risen as the krone weakened.

Sterling had a relatively quiet day, with attention

focusing on today's retail sales data for April.

Against a trade-weighted basket of other currencies, the pound fell a tenth of a percentage point to 103 per cent of its 1990 value. Against the D-Mark, it fell 1.1 pence to DM2.86.

Brian Kiley, technical

strategist at Royal Bank of Scotland, said that sterling was teetering at the edge of a bearish precipice at DM2.8860/2.8743. He said there remained a risk of an added squeeze to DM2.85, but that there would be an eventual push to DM2.8081. "Later on this year we could even see a rush down to DM2.85", he added.

The Polish central bank

said yesterday that it was

leaving its exchange rate

policy unchanged, as it

announced cuts in key interest rates.

The zloty depreciates by 0.8 per cent a month.

Poland's monetary policy

council reduced the Lombard and discount rates by one percentage point to 25 and 23.5 per cent respectively.

Hanna Gronkiewicz-Waltz,

the central bank president,

said the rate cut was possi-

ble because of "the hitherto

restrictive monetary policy

and a tighter fiscal policy".

Bernard Madl, at Morgan

Stanley, said the move was

unlikely to hurt the zloty.

WORLD INTEREST RATES

MONEY RATES

May 20	Over night	One month	Three months	Six months	One year	Long. term	Dis. rate	Repo rate
Belgium	3.6	3.4	3.3	3.4	3.6	8.00	2.75	—
France	3.8	3.4	3.4	3.4	3.6	4.50	2.50	3.30
Germany	3.9	3.6	3.4	3.5	3.6	4.50	2.50	3.75
Italy	5.4	5.6	5.6	5.6	5.6	6.50	5.25	—
Netherlands	3.4	3.3	3.2	3.2	3.4	4.25	2.75	3.30
US	5.8	5.8	5.8	5.8	5.8	7.00	5.00	—
Japan	5	4	4	4	4	5.00	—	—

III 3 LONDON SWITZERLAND
Interest Rates — 58 54 54 54 54 54 54 54 54
US Dollar CHF — 5.44 5.48 5.52 5.52 5.52 5.52 5.52 5.52
SDR United States — 4 4 4 4 4 4 4 4 4
SDR United States — 2.74 2.78 2.82 2.82 2.82 2.82 2.82 2.82

London Interbank Offer rate 4.00% in the SWITZERLAND, United States, US Dollar, SDR and United Kingdom (UK)

All rates are subject to the economic, money rates, US, UK, CHF, SDR and United Kingdom (UK)

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COMMODITIES & AGRICULTURE

Mining groups recall expatriates from Indonesia

By Kenneth Gooding,
Mining Correspondent

International mining companies have been recalling some expatriate employees from Indonesia's main towns because of the political upheavals in the country. But they insisted yesterday that there had been little impact on their mining operations, located in remote areas.

Nevertheless, analysts suggest that, if by some remote chance Indonesia's mines

were brought to a standstill, the impact on world markets would be severe.

Both copper and nickel, where the markets are currently expected to be over-supplied, would be particularly affected, as well as tin, where there is an immediate shortage.

Last year, Indonesia accounted for about 40 per cent of the western world's traded steam coal, 30 per cent of tin supply, 11 per cent of nickel, 6 per cent of copper, 5 per cent of gold, LME [London Metal

and 1 per cent of aluminium. The steam coal market is over-supplied at the moment and prices are down, but Indonesia's exports could not be replaced quickly and easily if any problem lasted any length of time," said David Price at the International Coal Report.

Tony Warwick-Ching, analyst at Flemings Global Mining Group, said: "The copper market would take it very seriously if anything happened to Indonesian supply. LME [London Metal

Exchange] stocks are low and the market would be very sensitive to any drop in supply."

At Macquarie Equities, Jim Lennon, analyst, said: "The tin market is already very tight and any sign of a reduction in production or exports could have a dramatic impact on prices."

Indonesia contains the world's second biggest copper mine, Grasberg, owned by Freeport McMoRan of the US, and located in Irian Jaya, 2,000 miles from Jak-

arta. It is being rapidly expanded and scheduled to produce 770,000 tonnes of copper and 2.7m troy ounces of gold (34 tonnes) this year.

Freeport said: "The mine is working better than ever."

Freeport's Jakarta office remains open, staffed by Indonesia employees, but 10

expatriates have moved to Singapore on the advice of the US Embassy.

Rio Tinto, the world's biggest mining group, had moved 28 expatriates to Australia from Balikpapan, the

Large US crude oil stocks hit prices

MARKETS REPORT

By Gary Mead and
Kenneth Gooding

The biggest stock of crude oil in the US since August 1993 depressed futures prices yesterday, when on the International Petroleum Exchange Brent blend for July slid 11 cents to \$14.27 a barrel in late trading.

The American Petroleum Institute published data showing a rise of 8.75m barrels in US crude stocks last week, to 353.18m barrels, when the market expected a fall of some 2.5m barrels.

A blockade of the world's longest railway line, Russia's trans-Siberian, helped boost aluminium prices on the London Metal Exchange.

Russian coal miners, desperate after not being paid for months, cut the country in half by blocking all its east-west rail lines and sparking a state of emergency in Siberia where some of Russia's big aluminium smelters are located.

Oleg Presman, deputy general manager of Krasnoyarsk, Russia's second biggest smelter, told Reuters: "We still have stocks of alumina, the raw material for aluminium for some days. And then - catastrophe."

Traders suggested sentiment was also affected by the International Primary Aluminium Institute announcing daily output fell slightly in April. Aluminium for delivery in three months on the LME closed \$0.10 a tonne up at \$1,881.

On the London International Financial Futures Exchange coffee trading was slow in the morning, where the July contract gained \$8 but a mere 914 lots were traded. Business gathered pace in the afternoon, when a further 2,383 lots were traded, and July closed at \$1,920, a gain of \$15.

Koreans shake gold market

By Kenneth Gooding

Patriotic South Koreans played havoc with the gold market in the first quarter by giving 223 tonnes of the metal to their government to help pay off some of the country's debts.

About 3.5m Koreans responded to the "Save the Nation" gold collection schemes after their country was caught up in the Asian economic turmoil.

One quarter of all households supplied some gold - an average of 65 grams each, or just over 2 ounces - mostly in high-quality jewellery.

Indonesians also added to the gold market's woes by selling a net 64 tonnes, sometimes to buy necessities after the value of their domestic currency collapsed.

Others were tempted to take profits as the domestic price of gold soared.

Indonesian jewellers were also hastily cutting back stocks.

The unprecedented sales in the two countries cut gold demand in the first quarter by 55 per cent to 342.1 tonnes or 11m troy ounces, according to the World Gold Council, a promotional organisation financed by some big producers.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

Close	528.5	527.8
Previous	538.4	545.4
High/low	530.5	527.5
AM Official	526.3	520.5
Kerb close	526.3	527.4
Open int.	526.2	527.0
Total daily turnover	2,928	2,928

LME \$US per tonne

Close	542.3	537.8
Previous	538.4	545.4
High/low	530.5	527.5
AM Official	540.0	530.5
Kerb close	537.6	537.6
Open int.	36,267	36,267
Total daily turnover	5,301	5,301

LME \$US per tonne

Close	4775.85	4862.70
Previous	4785.95	4870.75
High/low	4820.40	4820.40
AM Official	4830.40	4820.40
Kerb close	4830.40	4830.40
Open int.	51,271	51,271
Total daily turnover	2,928	2,928

LME \$US per tonne

Close	5885.85	5820.30
Previous	5945.55	5885.85
High/low	5890.61	5810.61
AM Official	5910.61	5869.61
Kerb close	5869.61	5869.61
Open int.	74,265	74,265
Total daily turnover	8,000	8,000

LME \$US per tonne

Close	10208.5	10209.7
Previous	10157.38	10178.67
High/low	10179.05	10179.05
AM Official	10151.5	10151.5
Kerb close	10150.9	10150.9
Open int.	71,228	71,228
Total daily turnover	70,709	70,709

LME \$US per tonne

Close	10208.5	10209.7
Previous	10157.38	10178.67
High/low	10179.05	10179.05
AM Official	10151.5	10151.5
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Offshore Funds and Insurances

• FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 473 4378 for more details.

FT MANAGED FUNDS SERVICE

Birmingham welcomes the CBI Conference for the fourth year out of five.

(It seems British industry really knows where it's going.)

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Birmingham

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES									
Alcohol Company	Notes	Price	10	10	10	10	10	10	10
Alcohol Corp			52 week						
Burn Stewart			Volume	1000s	Yd	Grd	PE	PE	PE
Diageo			1000s	Yd	Grd	PE	PE	PE	PE
Gibraltar A.			1000s	Yd	Grd	PE	PE	PE	PE
Heublein			1000s	Yd	Grd	PE	PE	PE	PE
Siage Co St Bt			1000s	Yd	Grd	PE	PE	PE	PE
Siage Y			1000s	Yd	Grd	PE	PE	PE	PE
Siage Dan			1000s	Yd	Grd	PE	PE	PE	PE
Merrydown			1000s	Yd	Grd	PE	PE	PE	PE
Siageon Co			1000s	Yd	Grd	PE	PE	PE	PE
BANKS, RETAIL									
ABN Amro Pl	Notes	Price	10	10	10	10	10	10	10
ABN Amro			52 week						
ABN Amro			Volume	1000s	Yd	Grd	PE	PE	PE
ABN Amro			1000s	Yd	Grd	PE	PE	PE	PE
ABN Amro			1000s	Yd	Grd	PE	PE	PE	PE
ABN Amro			1000s	Yd	Grd	PE	PE	PE	PE
ABN Amro			1000s	Yd	Grd	PE	PE	PE	PE
ABN Amro			1000s	Yd	Grd	PE	PE	PE	PE
BREWERIES, PUBS & REST									
ABP	Notes	Price	10	10	10	10	10	10	10
ABP			52 week						
ABP			Volume	1000s	Yd	Grd	PE	PE	PE
ABP			1000s	Yd	Grd	PE	PE	PE	PE
ABP			1000s	Yd	Grd	PE	PE	PE	PE
ABP			1000s	Yd	Grd	PE	PE	PE	PE
ABP			1000s	Yd	Grd	PE	PE	PE	PE
ABP			1000s	Yd	Grd	PE	PE	PE	PE
BUILDING MATS. & MERCHANTS									
Aggregate trds	Notes	Price	10	10	10	10	10	10	10
Aggregate			52 week						
Aggregate			Volume	1000s	Yd	Grd	PE	PE	PE
Aggregate			1000s	Yd	Grd	PE	PE	PE	PE
Aggregate			1000s	Yd	Grd	PE	PE	PE	PE
Aggregate			1000s	Yd	Grd	PE	PE	PE	PE
Aggregate			1000s	Yd	Grd	PE	PE	PE	PE
Aggregate			1000s	Yd	Grd	PE	PE	PE	PE
DIVERSIFIED INDUSTRIALS									
Amer Free A FM	Notes	Price	10	10	10	10	10	10	10
Amer Free A FM			52 week						
Amer Free A FM			Volume	1000s	Yd	Grd	PE	PE	PE
Amer Free A FM			1000s	Yd	Grd	PE	PE	PE	PE
Amer Free A FM			1000s	Yd	Grd	PE	PE	PE	PE
Amer Free A FM			1000s	Yd	Grd	PE	PE	PE	PE
Amer Free A FM			1000s	Yd	Grd	PE	PE	PE	PE
Amer Free A FM			1000s	Yd	Grd	PE	PE	PE	PE
ENGINEERING, VEHICLES									
Advanced	Notes	Price	10	10	10	10	10	10	10
Advanced			52 week						
Advanced			Volume	1000s	Yd	Grd	PE	PE	PE
Advanced			1000s	Yd	Grd	PE	PE	PE	PE
Advanced			1000s	Yd	Grd	PE	PE	PE	PE
Advanced			1000s	Yd	Grd	PE	PE	PE	PE
Advanced			1000s	Yd	Grd	PE	PE	PE	PE
Advanced			1000s	Yd	Grd	PE	PE	PE	PE
ELECTRICITY									
British Energy	Notes	Price	10	10	10	10	10	10	10
British Energy			52 week						
British Energy			Volume	1000s	Yd	Grd	PE	PE	PE
British Energy			1000s	Yd	Grd	PE	PE	PE	PE
British Energy			1000s	Yd	Grd	PE	PE	PE	PE
British Energy			1000s	Yd	Grd	PE	PE	PE	PE
British Energy			1000s	Yd	Grd	PE	PE	PE	PE
British Energy			1000s	Yd	Grd	PE	PE	PE	PE
ELECTRONIC & ELECTRICAL EQPT									
BBB B Corp	Notes	Price	10	10	10	10	10	10	10
BBB B Corp			52 week						
BBB B Corp			Volume	1000s	Yd	Grd	PE	PE	PE
BBB B Corp			1000s	Yd	Grd	PE	PE	PE	PE
BBB B Corp			1000s	Yd	Grd	PE	PE	PE	PE
BBB B Corp			1000s	Yd	Grd	PE	PE	PE	PE
BBB B Corp			1000s	Yd	Grd	PE	PE	PE	PE
EXTRACTIVE INDUSTRIES									
Anglo Am Coal R	Notes	Price	10	10	10	10	10	10	10
Anglo Am Coal R			52 week						
Anglo Am Coal R			Volume	1000s	Yd	Grd	PE	PE	PE
Anglo Am Coal R			1000s	Yd	Grd	PE	PE	PE	PE
Anglo Am Coal R			1000s	Yd	Grd	PE	PE	PE	PE
Anglo Am Coal R			1000s	Yd	Grd	PE	PE	PE	PE
Anglo Am Coal R			1000s	Yd	Grd	PE	PE	PE	PE
Anglo Am Coal R			1000s	Yd	Grd	PE	PE	PE	PE
EXTRACTIVE INDUSTRIES - Continued									
Anglo Am Coal R	Notes	Price	10	10	10	10	10	10	10
Anglo Am Coal R			52 week						
Anglo Am Coal R			Volume	1000s	Yd	Grd	PE	PE	PE
Anglo Am Coal R			1000s	Yd	Grd	PE	PE	PE	PE
Anglo Am Coal R			1000s	Yd	Grd	PE	PE	PE	PE
Anglo Am Coal R			1000s	Yd	Grd	PE	PE	PE	PE
Anglo Am Coal R			1000s	Yd	Grd	PE	PE	PE	PE
Anglo Am Coal R			1000s	Yd	Grd	PE	PE	PE	PE
EXTRACTIVE INDUSTRIES - Continued									
Anglo Am Coal R	Notes	Price	10	10	10	10	10	10	10
Anglo Am Coal R			52 week						
Anglo Am Coal R			Volume	1000s	Yd	Grd	PE	PE	PE
Anglo Am Coal R			1000s	Yd	Grd	PE	PE	PE	PE
Anglo Am Coal R			1000s	Yd	Grd	PE	PE	PE	PE
Anglo Am Coal R			1000s	Yd	Grd	PE	PE	PE	PE
Anglo Am Coal R			1000s	Yd	Grd	PE	PE	PE	PE
FOOD PRODUCERS									
Acme & Hatch	Notes	Price	10	10	10	10	10	10	10
Acme & Hatch			52 week						
Acme & Hatch			Volume	1000s	Yd	Grd	PE	PE	

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Continued									
Notes Price									
Murray Split Inv -									
Safar Inv -									
Safar Inv Fund -									
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LONDON STOCK EXCHANGE

Fed decision helps Footsie back over 5,900

MARKET REPORT

By Steve Thompson,
UK Stock Market Editor

Widespread relief that the US Federal Reserve's open market committee had decided to leave interest rates on hold, plus a much happier performance by Asian stock markets, provided a perfect background for UK stocks to extend Tuesday's rally.

And there was more good news for equities from a highly successful auction of £2bn-worth of 30-year gilts. The auction was covered

2.26 times, and saw gilts make excellent progress, with the 30-year issue up 17 ticks towards the close of trading.

The FTSE 100 index raced up a further 29.6 to 5,907.4, extending its rise over the past two sessions to 81.2 or 1.4 per cent, while the FTSE 250 and FTSE SmallCap, the two junior indices, both hit new intra-day and closing records. The former closed above 5,800 for the first time, finishing 30.3 ahead at a record 5,825.5.

The FTSE SmallCap settled at a new intra-day and closing high of 2,774.3, a gain of 13.8 on the session.

Just about the only group from the ranks of market-makers manning the City's trading desks was a rather disappointing level of activity accompanying the strong gains in the FTSE 100 stocks. Turnover at 8pm was seen down for 56 per cent on a first note.

Footsie was up and running from the outset, gathering momentum throughout the morning and carrying on upwards after Wall Street opened on a first note.

Dealers said the looming long bank holiday weekend would probably ensure that turnover levels fell away rapidly ahead of the three-day break. They also pointed out that many European markets are closed today for the revival.

And there was more good news for equities from a highly successful auction of £2bn-worth of 30-year gilts. The auction was covered

Also, Morgan Stanley has been recommending the stock ahead of one-to-one meetings with analysts, which are expected to carry reports of increased lending.

The sector, always vulnerable to interest rate concerns, received general support from the US decision to leave rates unchanged. Finally, it was spurred by speculation that ABN Amro of the Netherlands was keen to buy Bear Stearns, the US

Lloyds rose 2.7% to 891.4p while Bank of Scotland jumped 2.8% to 728.4p and Abbey National 3.8 to 511.03. Nevertheless, a profits down-

grade by Schroders pushed National Westminster down 1.9 to 511.12. The bank said it had bought back 2m shares at 511.20 a share.

Diabetes was marked down

severely in the immediate aftermath of the government statement that prohibited the use of recommended retail prices in the domestic electrical goods market.

Although the statement was seen by analysts as merely rubber-stamping recommendations made by the Monopolies and Mergers Commission in July, the stock dropped 1.1p in morning trading. However, it rapidly recovered the lost

ground to close a penny firmer at 508p.

Shell Transport eased 3.4 to 448.4p after it made transparent comments at a presentation to analysts in The Hague.

Analysts said the company had cut its 1998 return on capital target from 13 per cent to 12.5 per cent because of difficult trading. Targets for 2001 and 2002 stayed the same at 15 per cent. There was also talk that the company may review its capital employed, which stands at £100bn.

Also, the general oil environment continued weak with US crude prices dipping because of over-supply. BP fell 5.7% to 530p.

Rumours of positive results on oil exploration near the Falkland Islands helped AIM-traded Desire Petroleum to gain 9.6% to 305.4p. The rise was fuelled by a rumour that Amerada Hess has achieved "encouraging" results in a neighbouring area. The positive sentiment spread to Falkland Island Group, the retailing and port operations group, which rose 2.8 to 376.4p.

Information technology stocks were prominent among the better FTSE 250 performers. FI Group was pushed up 14.5 to 515 amid talk of a series of agency crosses uncovering a shortage of the stock.

National Power improved 6.7% to 571p as the generator announced full-year profits of £720m, near the top of an analysts' range that peaked at 573p.

British Biotech slipped a penny to 58p with Merrill Lynch issuing a cautious note on the stock. The broker said the company's circular to shareholders this week had more questions than it answered, particularly about the way clinical trials were conducted.

Follow IT sub-sector conti-

Continental CMG continued to benefit from positive feedback stemming from an analysts' visit to the company on Friday, and the shares rose 13.7% to 230.77p.

However, it was not all joy among IT stocks. Delphi was up 23.8% at 730p after a trading statement focused on a

fall in its US operations involving higher costs and lower revenues. Delphi said it was monitoring the performance of its US arms.

Newcomer Ambient Media Corporation, the AIM-traded marketing services and loyalty card company, opened at 90p and closed at a 2.7% premium. It raised 95m via the float, and had a market capitalisation of £17.5m.

A profits warning from printed circuit board maker Prestwick Holdings came two minutes after the market closed.

The warning blamed "rapid and severe deterioration affecting the global electronics market and continued deferment of orders by major customers". The shares had risen a penny to 37.3p.

Next recovered 21 to 542p as Morgan Stanley responded to Tuesday's reassuring noises from the company with a reiterated "buy" recommendation.

The broker raised its current-year profit forecast by 5 per cent to £168m on renewed confidence about gross margins.

Cartlon Communications climbed 2.3 to 517p after the company announced interim figures above the range of analysts' forecasts.

Profits rose from £15.6m a year ago to £16.5m even though the consensus was for a flat figure damped by start-up costs for digital television.

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Profits rose from £15.6m a year ago to £16.5m even though the consensus was for a flat figure damped by start-up costs for digital television.

National Power improved 6.7% to 571p as the generator announced full-year profits of £720m, near the top of an analysts' range that peaked at 573p.

British Biotech slipped a penny to 58p with Merrill Lynch issuing a cautious note on the stock. The broker said the company's circular to shareholders this week had more questions than it answered, particularly about the way clinical trials were conducted.

Follow IT sub-sector conti-

Continental CMG continued to benefit from positive feedback stemming from an analysts' visit to the company on Friday, and the shares rose 13.7% to 230.77p.

However, it was not all joy among IT stocks. Delphi was up 23.8% at 730p after a trading statement focused on a

fall in its US operations involving higher costs and lower revenues. Delphi said it was monitoring the performance of its US arms.

Newcomer Ambient Media Corporation, the AIM-traded marketing services and loyalty card company, opened at 90p and closed at a 2.7% premium. It raised 95m via the float, and had a market capitalisation of £17.5m.

A profits warning from printed circuit board maker Prestwick Holdings came two minutes after the market closed.

The warning blamed "rapid and severe deterioration affecting the global electronics market and continued deferment of orders by major customers". The shares had risen a penny to 37.3p.

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4 pm close May 21

NEW YORK STOCK EXCHANGE PRICES

INSECTs
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Environ Biol Fish (2007) 78:223–230

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Closing values at 16.00 CET		Eurostoxx 50		
Current value	Previous close	Net change	% change	
Financials	USD 1134.40	2092.44	-958.04	-45.01
IND-PIV	DEM 3644.97	3688.14	-43.17	-1.13
Non-financial goods	USD 1608.09	1577.87	+30.22	+1.93
IND-ODDOS	DEM 1992.99	1964.00	+28.99	+1.45
Oil	USD 1994.24	1988.17	+6.07	+0.30
IND-OLI	DEM 1973.32	1981.11	-7.79	-0.40
Pharma-chemicals	USD 1599.06	1564.77	+35.29	+2.25
IND-PHARMA	DEM 1949.84	1936.98	+12.86	+0.66

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STOCK MARKETS

US rate decision leaves bourses buoyant

WORLD OVERVIEW

Relief that the US Federal Reserve chose not to raise interest rates allowed stock markets to approach a holiday-packed weekend in fairly buoyant mood, writes Philip Cogan.

Many European markets will be closed today for Ascension day, while the UK and US have public holidays on Monday.

The Fed's decision on rates may not have been

unexpected but there had been some nervousness in recent days as the markets awaited the news from Washington.

Figures released yesterday, showing a wider-than-expected US trade deficit, should act to depress the rate of US economic growth - and make a rate rise after subsequent meetings less likely. That helped the US stock market open higher.

Meanwhile, the apparent easing of the Indonesian cri-

sis, as the army took control of the streets of Jakarta and a demonstration was called off, brought some calm to Asian markets. Tokyo and Hong Kong edged ahead.

European markets took advantage of the improved international background to forge ahead, with the Dax in Frankfurt passing 5,500 for the first time. The Paris and Brussels bourses also reached record highs.

Nevertheless, eager bears could still find some reasons

for caution. Japan recorded a sharp increase in its trade surplus (up 83 per cent year-on-year), thanks to a near 14 per cent decrease in imports, reflecting the weakness of domestic demand.

Japan's economy is rapidly subsiding into a recession that could easily turn into depression, with the Dow Jones Transportation Average, which seems to have broken its up trend. This month, to proponents of "Dow theory", developed by Charles Dow, the founder of

the Wall Street Journal, according to the theory, rises in the Dow Jones Industrial Average need to be "confirmed" by a rise in the railroad (now transportation) average and, according to later adherents, the utilities average.

Tuesday's fall by the transports breaks the pattern of bull market confirmations and will worry some very influential US investors and commentators," says Mr Glydon.

US equities slip back after gains

AMERICAS

US shares pared early gains to present a more mixed trading picture by midday, writes John Labate in New York.

The Dow Jones Industrial Average rose more than 50 points early in the session as a rally in bonds set in. But by early afternoon the mood had cooled, with the Dow up 21.22 at 9,076.57. The broader Standard & Poor's 500 index was up less than a point at 1,109.86.

Helping to give a boost to morning stock prices was a spate of hedge fund buying in the US Treasury market. New figures put the US trade deficit at \$13bn for March. This helped convince investors that GDP estimates would come down, potentially heading off any Federal Reserve rise in interest rates later in the year.

Bond prices remained firm into the afternoon session. The benchmark long bond was 11 higher at 103 1/4, pushing the yield down to 5.837 per cent.

But one day after Dell Computer reported better-than-expected earnings, a wave of selling took hold among computer producers and semiconductor shares.

The sell-off put pressure on the Nasdaq composite, which lost 15.09 to 1,830.78. The sell-off of technology stocks was widespread. After recent sharp rises Dell Computer was down 2 1/2 to \$92.74, while Gateway 2000 fell \$2 to \$47.74.

Semiconductor stocks were hit by a warning by Analog Devices ahead of

upcoming results. The shares tumbled 18 per cent or \$64 to \$274. Advanced Micro Devices also fell back, losing 7.3 per cent at \$202. Chip sector leader Intel lost \$32 to \$774.

News that Bank of New York had withdrawn its bid for Mellon Bank had only a mild effect on prices.

Mellon was down 1 1/2 to \$65.62 after PaineWebber lowered its rating on the bank. Bank of New York rose 31/2 to \$61.75. NationsBank rose \$1 to \$76.25.

Lucent Technologies gained 5 1/2 to \$72.45 after it said it would be provider of networking equipment for a significant undersea cable project.

Among Dow components, AT&T climbed 5 1/2 to \$57.75 as the company conducted its annual shareholder meeting.

TORONTO moved higher in early trading helped by a flurry of activity in telecoms shares following news of a sector deal. Resource stocks remained dull, but at noon the 300 composite index was up 15.92 at 7,576.30.

A C\$1bn disposal by Rogers Communications sent the shares up C\$1.70 to C\$11.30 in heavy two-way trading volume. Northern Telecom jumped C\$2.65 to C\$9.65 and Videotron C\$1 to C\$17.25.

Bid target Inmet Mining rose 70 cents to C\$5.10, 10 cents above the offer made late on Tuesday by Zemex, which Inmet has denounced as inadequate. Seagram continued to suffer from profit-taking, slipping a further 65 cents to C\$69.35.

Positive news continued to flow from annual meetings. Hopes for a share buyback and strong profits sent Danone up FF150 to FF175 and Dexia gained FF15 to FF177 after an equally upbeat meeting statement.

Among smaller caps, Eurotunnel had another strong day in the aftermath of a bullish report from a small stockholders' association.

The shares rose 50 cents to FF16.20 for a two-day advance of 11 per cent.

FRANKFURT pressed further ahead into record territory and the Xetra Dax index pushed up 73.51 through the psychological 5,500 barrier to close at 5,514.51. Analysts said high liquidity, hopes that Asian markets were settling and the early performance of Wall Street supported the market.

The perceived improvement to the business outlook across Asia sent Heineken shares 50 cents higher, lifting the shares FF1.30 to FF1.70.

French shares hit fresh high

EUROPE

French equities hit a record high with the PARIS market ending at its best of the session, the CAC 40 index 67.08 higher at 4,047.92.

LVMH racked up one of the day's top performances, gaining FF157 or 4.5 per cent to FF1,323 as investors latched on to a number of positive threads.

Brokers said worries about Asia - where LVMH has a large customer base - were subsiding and they pointed out that the luxury goods group was due to make its first presentation in the US tomorrow. Finally, a largish line of stock was said to have successfully passed through the market.

France Telecom continued to push higher adding FF10.00 at FF1345 for a two-day gain of 8 per cent following a US press report suggesting that Sprint PCS, in which France Telecom has a 20 per cent stake, could shortly be floated.

Brokers estimated that Sprint PCS could have a stock market value of \$30bn, compared with the equivalent of \$5.8bn for France Telecom.

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Weaker rand dents shares

SOUTH AFRICA

A softening rand and an official upward nudge for interest rates pushed shares in Johannesburg lower and sent the all-share index down 0.4 per cent to 8,085.5.

The central bank said up to

its repo rate in the face of foreign exchange weakness for the rand and shares fell across the board.

Industrials lost 0.3 per cent to 9,335.3 and financials came down 0.5 to 13,814.6.

Golds dipped 0.5 per cent to 1,018.4.

São Paulo falls steeply

SAO PAULO was hit by interest rate worries with the market falling steeply ahead of the latest meeting of the central bank's monetary policy committee.

Blue chips tumbled lower with Eletrobras tumbling 4.6 per cent to R\$39.50 and Petrobras giving up 2.7 per cent to R\$234.

Telebras, which remains on course for a privatisation flotation in July, lost 1.7 per cent to R\$125.30.

At midsession the Bovespa index was looking distinctly

groggy, sliding 227 or 2.2 per cent to 10,116.

MEXICO CITY made early gains, boosted by upbeat economic data, notably 6.6 per cent growth for first quarter output.

By mid-session, however, sellers were in complete command and the IPC index was off 73.38 or 1.6 per cent at 4,651.07.

Bank shares made modest upward progress after two days of heavy losses for the sector. The Bancomer improved 11 centavos to 4.62 pesos.

The sell-off put pressure on

the Nasdaq composite, which lost 15.09 to 1,830.78. The sell-off of technology stocks was widespread. After recent sharp rises Dell Computer was down 2 1/2 to \$92.74, while Gateway 2000 fell \$2 to \$47.74.

Semiconductor stocks were hit by a warning by Analog Devices ahead of

Tokyo rises as tensions ease

ASIA PACIFIC

With regional alarms continuing to subside, TOKYO closed above 15,500 for the first time since May 1, writes Gillian Tett in Tokyo.

The Nikkei 225 Average rose 101.30 or 0.7 per cent to 15,652.95, after moving between 15,573.87 and 15,789.01. The Topix index of all first section shares gained 5.76 to 1,225.82. The Osaka exchange rose to 16,460, up 119.89.

Turnover on the TSE was an estimated 430m up from Tuesday's 390m, but broadly in line with recent volumes. The day's advance followed Tuesday's modest improvement, which was triggered after Indonesia's President Suharto said he would not stand for the presidency after parliamentary elections in the near future.

However, it also reflected new investor interest in a wave of share buybacks that have recently been announced by companies, such as Toyota and Tomen.

Nevertheless, traders warned that investors were now sifting through different sectors carefully, not least because companies were now releasing their results. Advancing issues outpaced decliners 792 to 343. By sec-

ond, gainers were led by fisheries, sea transport, air, transport, iron and steel, and textiles. Losers were led by communications, railway and bus and railroads.

The cautious optimism about Indonesia helped boost the price of banking and trading house shares. These had declined sharply in recent days.

Among trading companies, Marubeni climbed Y10 to Y298, and Itochu Y9 to Y321. The rise occurred after the trading houses announced earnings results for the year.

In banks, Sakura Bank rose Y7 to Y44, Bank of Tokyo-Mitsubishi Y11 to Y154, and Sumitomo Bank Y30 to Y1,349. Tomen climbed Y16 to Y124 after

announcing a share buyback plan.

The volume leader was Nippon Steel, up Y10 to Y233, following Tuesday's news that Pohang Iron and Steel of South Korea was talking with the Japanese steelmaker for an equity tie-up plan.

Ohayashi was the highest percentage loser, falling Y48 or 8.1 per cent to Y518 after Tuesday's warning of a smaller parent current profit for the 1998 fiscal year.

HONG KONG reversed early losses to close higher as tensions in Indonesia eased. Investors covered short positions and lower interbank rates offered additional support. The Hang Seng index picked up from a low of 9,264.30 to close 100.07 higher on the day at 9,364.18.

Property counters underperformed, after recent price cuts by developers, many of which were said to be trading at almost 40 per cent discount to their net asset value. But Sun Hung Kai Properties, which said on Tuesday that it had slashed prices on its remaining units at one development, picked up 20 cents to HK\$10.65.

Cheung Kong was flat at HK\$43.

Turnover picked up to a healthy HK\$7.9bn against Tuesday's HK\$6.5bn. Tomen climbed Y16 to Y124 after

JAKARTA ended 10.18 higher at 424.00 on the composite index for a two-day rally of 8.9 per cent as political tensions eased. However, volume was nominal, with the central bank suspending clearing operations. Roadblocks were said to have led to poor attendance. Turnover was Rp10.9bn.

KUALA LUMPUR continued to rally on the better tone across Asia, sparked modest buying. Volume was weak at 147m shares but gainers swamped losers by almost four to one. The composite index closed 14.77 higher at 569.19.

SEOUL gained 6.64 to 369.17 on the composite index in improving volume, with 78.1m shares changing hands, against 63.9m on Tuesday. Hyundai Motor rose Won200 to Won17,400 after announcing plans for substantial lay-offs.

KARACHI remained under pressure as rumours of a border clash with India added to investors' concerns. The KSE-100 index lost 56.46 or 4.3 per cent to 1,249.60, up from a low of 1,212.56. Fears that Pakistan would conduct nuclear test, triggering sanctions by world powers, and the government's row with private power producers over tariffs remained pre-occupations.

Hong Kong index (rebased)

Hang Seng

Property

Sakura

Sumitomo

Itochu

Marubeni

Nippon Steel

Pohang

Ohayashi

Cheung Kong

Hang Seng

Property

Sakura

Sumitomo

Itochu

Marubeni

Nippon Steel

Pohang

Ohayashi

Cheung Kong

Tomen

Hang Seng

Property

Sakura

Sumitomo

Itochu

Marubeni

Nippon Steel

Pohang

Ohayashi

Cheung Kong

Tomen

pursuit of their demands for back pay. The Russian stock market, which rebounded on Tuesday after the government raised interest rates to defend the rouble, slipped another 1.5 per cent.

And technical analyst Nick Glydon of Flemings



EAST MIDLANDS

Industries pounded by strong sterling

Pages 1-3



CITY CENTRES

Edinburgh, Glasgow, London, Newcastle, Norwich

Page 4

REPORTING BRITAIN



CALL CENTRES

Keeping staff is a big problem

Page 5



SOUTH-EAST ENGLAND

The region finds its voice

Page 6

Alan Pike reports on some of the issues European environment ministers will have on their review agenda when they meet in Glasgow next month

Cities, towns strive to preserve centres

Town and city centres are striving to defeat challenges to their future viability from out-of-town retail parks, multiple urban problems and a public fashion for mock rural styles of living.

The difficulties they face should not be underestimated. But neither should the hesitant yet strengthening confidence in urban areas that predictions of town centres collapsing into irreversible decline and eventual redundancy will prove less far-sighted than far-fetched.

EU environment ministers will next month discuss issues facing town centres as part of a wider review of regeneration, regional and planning policies. They will meet in Glasgow - a city that has, through the promotion of street wardens and a range of physical improvements shown how city centre developments can be used as an important tool of regeneration policy.

A UK government drive to increase the proportion of new homes built on brown-field sites has this year

given fresh urgency to the search for ways of successfully maintaining and improving town centres. But several other factors are focusing growing attention on the issue.

The proportion of single-person households in the population is increasing and enlarging the pool of potential urban dwellers at a time when disused town centre office and industrial space, schools, churches and other central locations are making interesting and unusual properties available for conversion to residential use.

Next year's establishment of English regional development agencies coincides with growing interest in evidence that suggests the economic success of entire regions in the next century will be tied up with the performance and image of their leading cities. And the challenge from purpose-built, out-of-town retail parks is forcing conventional town and city centres to thoroughly re-appraise their purpose, usually for the first time.

"Town centres that have

evolved around a mixture of activities over long periods cannot expect to be able to compete head-on with out-of-town shopping centres that are designed for a single purpose," says Alan Tallentire, chief executive of the Association of Town Centre Management.

The secret of continuing

success for a traditional town centre is to identify its own, individual strengths and distinctive features, and promote these as part of an overall programme to benefit the town as a whole."

The UK now has around 240 managed towns, most with full-time managers. In a new good practice guide the association emphasises the range of factors that must be addressed by local authorities, retailers and town centre managers as they seek to make the best of their towns: street cleaning and repairs, marketing, the staging of festivals and other events, lighting and paving, crime, shopfront design, car parking and pedestrianisation are only a selection of the topics covered.

Specific examples in the

guide range from the sophisticated - in Romford, a CCTV and radio system linking retailers with police patrols reduced reported pre-Christmas pick-pocketing offences by 76 per cent last year - to the novel, such as Soilmill's street cleansing team working with a small company to develop a pressurised steam machine to remove chewing gum.

Many town centres are now managed as public-private partnerships. But it is sometimes easier to reach agreement on good ideas for improvements than to decide how to pay for them. In the US, all property owners within Business Improvement Districts (Bids) are legally obliged to pay levies to finance environmental and similar schemes if a majority votes in favour.

A UK government green paper (discussion document) on local authority finance this spring opened the possibility of the introduction of

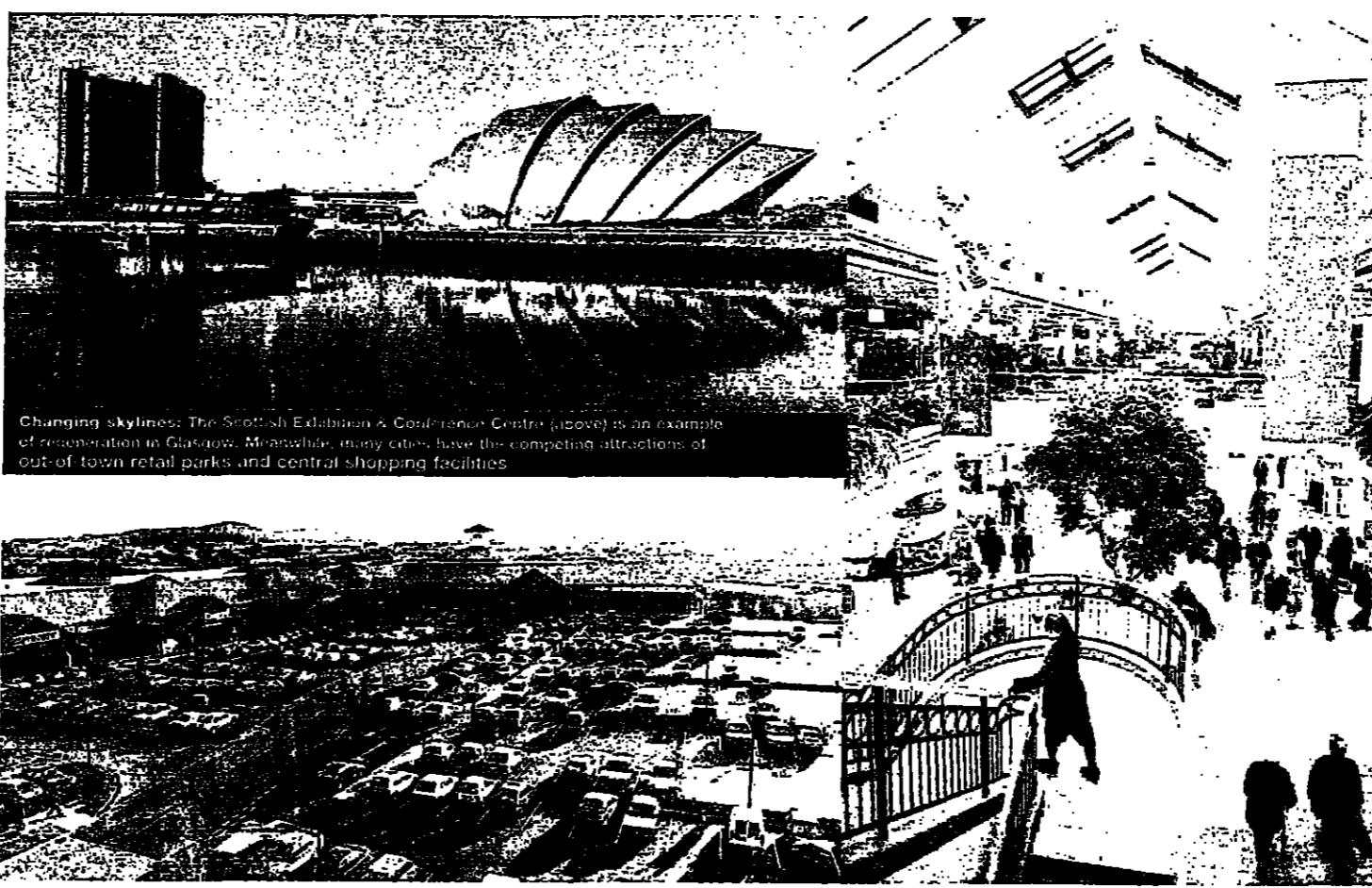
Bids being considered in the UK once a forthcoming reform of the business rate system has been completed - an experiment at running a Bid on contributions from volunteer participants has just been launched in Fitzrovia, part of London's West End.

Mr Tallentire's association is at present researching the likely effectiveness of various ways of bringing the UK public and private sectors more closely together to support town centres. While he believes there is no doubt that Bids have proved highly successful in the US, Mr Tallentire questions whether they could be replicated in their exact form in the UK. "Town centres need the private sector to give its expertise, not just its money," he says. "If companies regarded Bids as merely another form of taxation they would not dedicate time and effort to the task of making the best of our town centres. We

have to show the private sector that there are business benefits for them in becoming involved."

To succeed, the sought-after renaissance of town centres requires balancing many sometimes conflicting priorities - between, for example, public and private sectors, pedestrians and motorists - and policies aimed at achieving both an increase in town centre re-

Continued on Page 6



Changing skylines: The Scottish Exhibition & Conference Centre (above) is an example of regeneration in Glasgow. Meanwhile, many cities have the competing attractions of out-of-town retail parks and central shopping facilities



EAST MIDLANDS

Strong desire for an identity

The region's business has a determination to climb the pecking order in Europe as well as the UK, writes Richard Wolfe

When the government launched its plans for regional development agencies (RDAs) last year, few observers could have guessed that the East Midlands would seize the idea with enthusiasm. Torn by deep-rooted rivalry between its leading counties and cities, some political leaders privately described the East Midlands as "the bits that were left behind" when other regions were carved up.

However, a broad consensus of business groups, local authorities and other bodies signed up to one of the strongest proposals for an RDA in the country. The region may lack identity, but it does not lack the desire to create one for itself.

The paradox of the region was recognised two years ago by Nottingham city council. It calculated the East Midlands was missing out on millions of pounds of government grants and European funding because of a lack of identity and, ultimately, lobbying power. However, the identity problem was not necessarily a bad thing, the council concluded. "Ironically, it is the lack of a clear identity for the region which provides its strengths," the council wrote in a report on the funding gaps.

"It is a region of diversity and contrasts, and includes coastal resorts, heavily urbanised and industrial centres, and areas of outstanding natural beauty such as the Peak National Park and Sherwood Forest." For instance, while its industrial base - in particular mining - has collapsed, manufacturing still represents almost 30 per cent of the region's output and around 23 per cent of employment.

With such a varied economy, the task of the RDA is a tall one - and made no less daunting by the region's vaulting ambition. Paul Hodgkinson, chairman of both the regional Confederation of British Industry and the East Midlands Economic Development Forum, says:



Nottingham: some of the city's traditional industries such as knitwear have suffered in recent years

Photo: Nottingham Evening Post

"The main issue currently facing the region is that we are 32nd out of 72 regions in terms of the pecking order in Europe in terms of GDP per head, and fourth out of 10 in the UK."

"Our task for the RDA is to bring us up at least four places in Europe and to third place in the UK. We will probably have only around £2m to leverage up £40bn of economic activity to bring the region up the pecking order. That means networking current money to make it work smarter and better, and chasing only a few things to do well, rather than a very long list."

Take inward investment, where the region has lagged its West Midlands rival for several years and was late in setting up a regional agency to promote itself to investors.

"We have to make sure that when a customer looks at the area they are offered a friendly response," he said.

"A lot of the time it is very difficult to do that when you have four or five squabbling local authorities which really do need to have a co-ordinated approach in place."

That view is echoed by John Finch, chief executive of the East Midlands Development Company, which aims to attract inward investors.

"We have seven training and enterprise councils (Tecs) in this region, but they are only beginning to work more closely together in certain things like developing a regional approach to the skills inward investors need," he says.

"We would be able to do that much better in an RDA, whereas today, if we have a problem, we have to drag it around seven Tecs. It would be much better if there was one place to go to."

Part of that integration is

likely to come from the regional chamber, which several other regions rejected as business leaders refused to accept oversight from political and trade union representatives. For Robert Jones, leader of Derby city council, the chamber is a unifying force.

"We are really building regional institutions in the East Midlands from a comparatively low base, compared to some of the more historically, clearly identified regions," he says.

"Therefore we do need, in my opinion, a local, indirectly-elected body which will cultivate that sense of regional identity. We want an inclusive feel about it, particularly as the local authorities do not have an

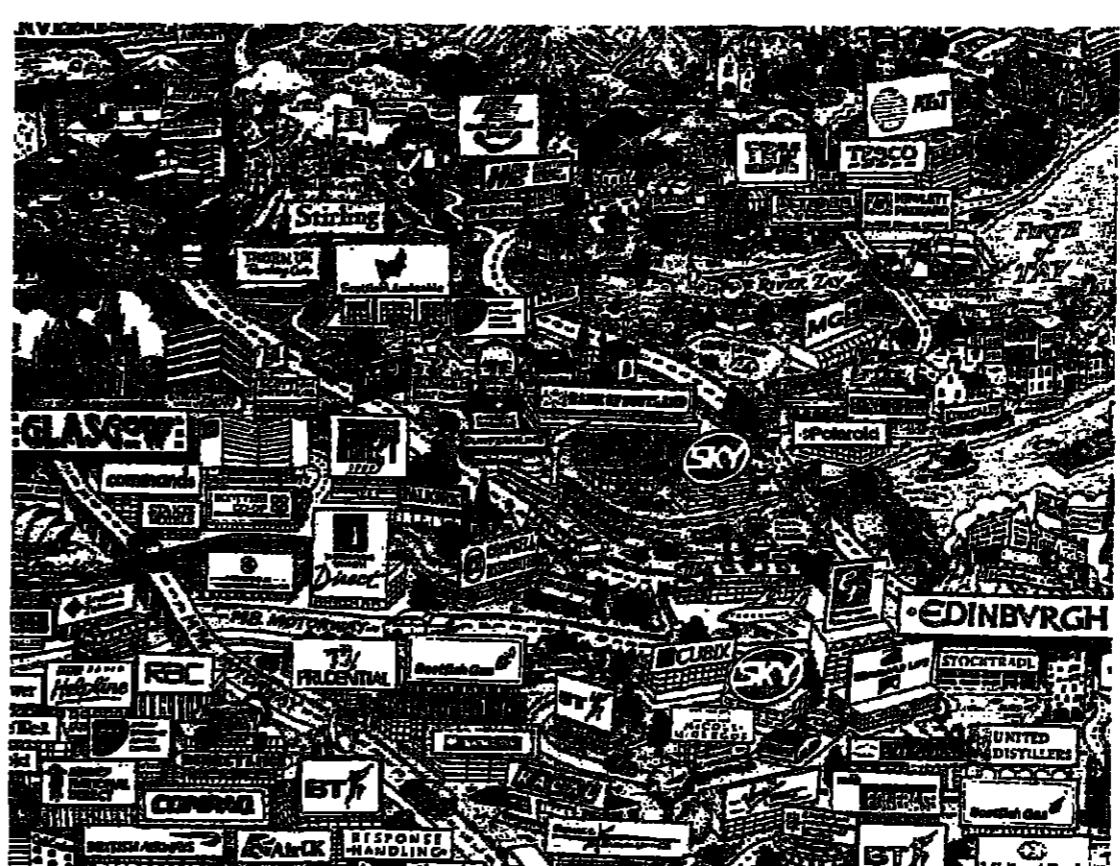
incredible history of working with the private sector in the region. Without a chamber there is a danger that the RDA members would become a little detached from the region."

Other political leaders are less certain about the RDA's ability to galvanise the region. Graham Chapman, leader of Nottingham council, says: "It is two cheers for the RDAs. The weakness is that it is very unclear what democratic accountability there is, and also that it has not taken on enough responsibilities - such as employment issues."

"On the other hand, it will give the East Midlands an identity where before we suffered from a lack of identity, and a lack of National Lottery success and grants in general. It will also give us a voice in Europe, which is absolutely essential."

In the meantime, the RDA will have to address some crucial economic issues in the region. According to recent surveys, business optimism has slumped to its lowest level since October

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TEXTILES AND FOOTWEAR

Cheap imports are now the fashion

High consumer spending has failed to protect traditional industries from harsh trading conditions, says Richard Wolfe

There was a time when rising confidence among retailers and strong high street spending meant nothing but good news for the textile and footwear producers of the East Midlands. But in spite of the high level of consumer spending over the last year, fashion-related industries in the region have, in fact, suffered some of the harshest trading conditions in living memory.

Surveys of business confidence in the East Midlands paint a bleak picture. While the mood among retailers and service companies has remained buoyant over the past 12 months, confidence among textile companies has slumped along with profits.

In spite of good consumer confidence, the traditional fashion industries of the region have come under increasing pressure from cheap imports and intense

competition from low-wage manufacturers in developing countries.

In textiles, both fabric manufacturers and sewing operations have suffered in recent years at the hands of competition from Asian competitors and new rivals in north Africa. Marten Fraser, partner in charge of accountants Price Waterhouse in the East Midlands, said foreign competition has become especially intense as sterling rose last year and Asian currencies devalued sharply.

"For a lot of areas there has been a steady movement of manufacturing abroad, and I think that is continuing," he says. "There used to be a perception that in order to be able to offer the best service to the retailers you traditionally needed to have factories in the UK. If your order went particularly well, there had to be a way to respond to the retailer's extra orders - especially if

some companies have managed to avoid the worst by investing in new knitting machines to produce complex, textured fabrics which closely resemble lace. Others, such as Nottinghamshire-based Filigree, have survived by importing curtains for the home furnishings market.

Stephen Walkley, marketing director, says: "What has happened in furnishings is that there has been a trend to woven voile curtains, which is a sheer lightweight

woven fabric, which is more expensive. We import the fabric from Korea and sell it in competition with our lace."

"In garments, trade is especially difficult in the UK. One of the problems is that the industry has relied on exports for a very significant chunk of its business, and that has died because of the strong pound. There are also a lot of importers, particularly from Turkey at the moment, who can set them-

up very easily. A lot of people in textiles are surviving rather than prospering."

The Lace Federation, the industry association, is now planning to counter the rise of foreign rivals by authorising a special logo to brand Nottingham lace, in much the same way as Sheffield has branded its steel.

Lincoln Austin, of the federation, says: "We are hoping that if the logo becomes

adopted by the high street it could make a big difference to people's perceptions. Nottingham lace is renowned throughout the whole world."

In the footwear business, margins have been particularly squeezed by declining sales in recent weeks - at a time when the Confederation of British Industry reports that almost every other retail sector has increased sales.

Niall Campbell, chief executive of the British Footwear Association, says: "It is a labour-intensive industry and relatively low-tech, so you find that imports represent more than 60 per cent of shoes in the UK, and China is the world's major footwear producer. The British consumer does not expect shoes to be expensive."

The best success stories of the East Midlands are not in the mass market but in

street fashion and high quality men's footwear - Northamptonshire-based companies such as R. Gregg, which makes Doc Marten shoes, and Church & Co, which produces high-quality shoes for men.

Others, such as the small Northamptonshire company W.J. Brookes, have had to diversify quickly into some niche sectors to survive. From winkle-pickers to fashion athletic footwear, and from ladies' sandals to steel-capped shoes, the family-run concern has been forced into being flexible.

Steven Pateman, managing director, says: "We make anything. Times are very hard at the moment, and to keep going we have to try and find niche areas where we can find the customers."

The result has been a rollercoaster ride over the last two years. "In 1996 we put in our biggest profit in 10 years, while in 1997 we put in our biggest ever loss," he says. "The man on the street in England does not care where he buys his shoes from. Luckily, in places like Germany, they want to buy British footwear far more than other shoes. But the high pound has been killing us - it has been the death-knell of British footwear."

"Our factory has always been a traditional men's footwear factory, but this year I have had to start making ladies' and men's high heels, which is totally unheard of. It is make-or-break time."

Photo: Nottingham Evening Post

Textiles industry is under pressure from low-wage manufacturers in developing countries

Photo: Nottingham Evening Post

TRANSPORT

Still waiting for some green lights

Congested roads and poor east-west rail links are long-standing problems, writes Juliette Jowit

One thing drivers in the Midlands quickly learn is to avoid the M6, where stories of motorists at a standstill for 20 minutes at a time are not uncommon.

The infamous route is one of many problem roads in the east of the region, which has more than 20 proposals pending on the government's Highways Programme.

Also awaiting attention are a raft of plans to reduce urban congestion, to improve rural public transport links, to up-grade east-west railways, and reduce traffic pollution.

Such a multiplicity of sometimes conflicting demands is a perpetual headache for regional planning authorities, businesses, residents and environmental groups.

The two main problems with the region's transport network are poor rural links for a large proportion of the population, and chronic congestion in a heavily-industrialised area where road transport is vital to commercial survival.

A regular business survey on the East Midlands by Price Waterhouse reveals roads are a great concern.

especially in Lincolnshire, where plans to upgrade the main A1 north-south trunk road and the A46 link between the M1 and the A1 appear to be a long way off.

There have been improvements, including the M1-A1 link in Northamptonshire expected to boost distribution in the area, and the M1-M6 Derby southern bypass, which should open the north-west and north Wales to local companies.

But many schemes remain political and economic hot potatoes - both in the East and West Midlands, where projects such as the controversial Birmingham northern relief road, linking the M6 and M42 motorways, would have important knock-on effects in relieving local congestion.

Similarly, there are a variety of urban schemes to relieve traffic pressure - some of them trying to push traffic off the road, some encouraging motorists to opt for public transport.

Using the carrot and stick approach, Leicester is trialling "virtual tolls" to find out how much motorists have to be penalised financially before they leave their cars

At a wider, more strategic

level, local planning authorities are also being encouraged to site developments closer to existing shops and services, to reduce the long-term need to travel at all.

Before there is a large-scale migration back to public transport, though, the region's leaders recognise more needs to be done to improve bus and train services. In both urban and rural areas, many local projects are being set up to introduce bus-only and priority lanes, upgrade waiting facilities, and put in electronic information boards so passengers know how services are running.

On the railways, less is being done, which is a big problem on east-west routes, says Marten Fraser, partner in charge of Price Waterhouse in the East Midlands.

North-south rail links on the electrified east coast mainline are among the best in the country, providing fast and regular services to London, and soon, on to Europe. Rural services have also been improved by the recent opening of the Robin Hood Line, linking the coalfields of south Derbyshire and Nottinghamshire with Nottingham.

Responsible employers in the next 10 to 15 years are increasingly going to be trying to get their workforce to use public transport as much as possible," says Mr Atchison.

The problem is, if people don't tackle these things, the cities will just smart up and that's totally counter-productive for businesses and generally destructive."

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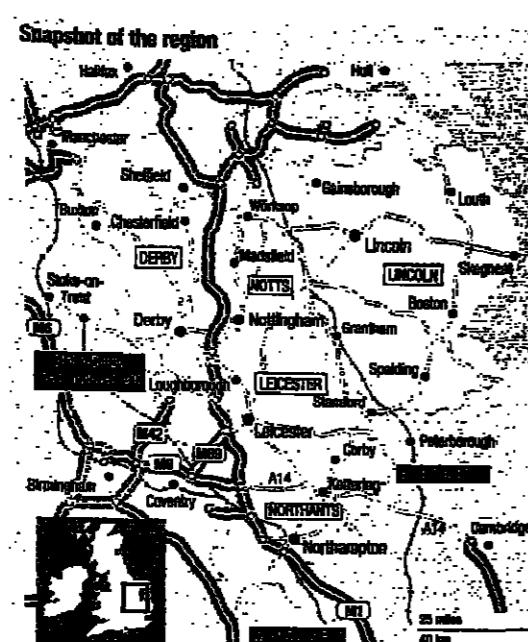
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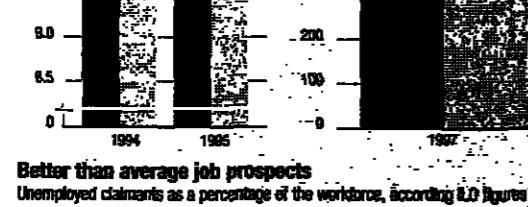
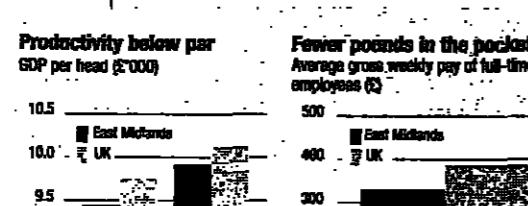
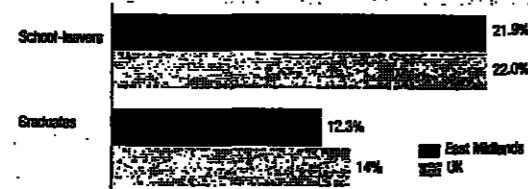
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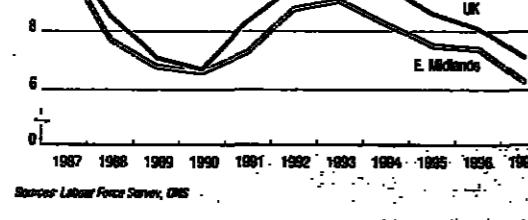


Snapshot of the region



Better than average job prospects

Unemployed claimants as a percentage of the workforce, according to D.O. figures



Source: Labour Force Survey, ONS

MINING

Coal creates a burning problem

Fears of more closures raise the prospect of another blow to the local economy, writes Deborah Hargreaves

Employment in coal mining in Nottinghamshire could decline to just 1,000 by the end of the century, with only two pits remaining in operation, according to analysis put together by the county council.

This scenario is based on fears that RJB Mining, which took over the bulk of coal mining operations in the region, will not be bailed out by the government in its review of energy policy.

Tony Blair, prime minister, brokered a temporary reprieve for the company earlier this year by leaning on Britain's electricity generators to extend their coal contracts with RJB until the end of June.

By then the government should have completed a review of energy policy which could provide a rescue package for the pits.

Richard Budge, chief executive of RJB Mining, warned at the beginning of the year that he would have to close up to eight pits and make 5,000 employees redundant when the contracts expire. Last year RJB sold 27m tonnes of coal to the three main generators, but it has replacement contracts for only 14m tonnes.

The closure of more mines in the East Midlands would prove a blow to an economy which has seen its coal industry shrink considerably in the past five years.

Coal mining has gone from being a cornerstone of the Nottinghamshire economy to a minority pursuit. In 1961, when coal was at its peak, 56,000 people were employed in mining in the region - underground in 39 collieries - and in the headquarters of two regional divisions of British Coal. Coal accounted for 18 per cent of the male

workforce. In Nottinghamshire, coal mining was the largest employer, narrowly beating the county council. By 1992 the number of pits was down to 13 with 12,300 workers.

Last year this had shrunk to six pits and 2,700 employees.

The county council estimates that the 1992 pit closures resulted in a loss of £224m to the county's economy. It also points out that the raw figures mask the knock-on effects in connected industries of coal's decline.

The county's prosperity

measured by GDP fell from

99.4 per cent of the national

level in 1991 to 96.9 per cent

in 1993.

"Pit closures are so severe because they are concentrated in a small geographical area, in villages which have been built specifically to serve that colliery," says an official at the Coalfield Communities Campaign, a coal pressure group.

Although the mining industry is now less important than previously, pit closures still have a devastating effect on the communities they affect. A report by Nottingham county council points to an increase in social problems in pit villages, deteriorating health, and breakdown of community facilities.

Collieries are often situated in rural, isolated locations which have always been centred around the mine. Transport links are often not set up to provide people with a way of seeking advice, training and jobs in neighbouring cities.

Terry Nash at Mansfield 2010, one of the organisations working on the regeneration of the former coalfields, says the retrospective nature of mining communities



Once a cornerstone of the local economy, coalmining now provides fewer than 3,000 jobs in the East Midlands

Photo: Nottingham Evening Post

and local businesses are expanding. But Mr Nash points out that this is not helped by a mismatch of skills.

"There is high unemployment, but a fair number of jobs cannot be filled," he says. "A lot of people who were employed in mining need extensive reorientation before they are even ready for retraining."

Local politicians are working hard to secure a future for coal in the region. When RJB bought 15 deep mines in 1984 as British Coal was privatised, Mr Budge promised big savings in operating costs and a bigger market for coal.

But RJB was recently criticised by a committee of MPs for complacency and poor commercial judgment by failing to deliver significant

cost savings. The influential trade and industry committee put the blame for the crisis in the coal industry firmly at RJB's door.

Although Mr Budge defended his management of the company, saying he had cut costs by 15 per cent in three years and cut 4,000 jobs, the MPs' criticism makes it more difficult for the government to bail out the company.

It is difficult for RJB to compete with coal imported from low-cost producers in countries such as Australia without government intervention.

The strength of sterling has exacerbated the price difference with Australian coal selling in Britain for £21 a tonne compared with an average of £36 a tonne for RJB.

Professor Stephen Littlechild, the electricity regulator, has told the government the coal industry should have in size over the next few years in order to keep electricity bills low.

However, RJB is not the only company digging for coal in the East Midlands. On a smaller scale, Midland Mining is hoping to go ahead with a plan to mine for coal under Newstead Abbey in Nottingham in December.

Newstead Abbey is the historic former home of Lord Byron, and the plan to mine 1.5m tonnes of coal from underneath it has caused much local opposition. But in an economy which grew up around coal, every attempt will be made to safeguard as many mining jobs as possible.

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New life in city centres

NEWCASTLE

Planning for a real eye-opener

There has been much regeneration, but the loss of retailing has created problems in the Grainger district. Alan Pike reports

Priorities for the future of central Newcastle-upon-Tyne will be outlined in a plan due to be published next month following a series of "city centre summit" consultations.

Tony Flynn, leader of the city council, says the document will be "an action plan that all sectors can agree to". Issues addressed will include transport, retail and office development, the environment, employment and housing.

Newcastle's comprehensive review of city centre issues sits alongside a city council campaign entitled "Newcastle - A Real Eye Opener". Its aim is to re-image a city where, contrary to some lingering impressions, manufacturing accounts for only 6 per cent of employment and services 89 per cent.

"We have to get people who still believe Newcastle

is an old-fashioned industrial city to come and see for themselves," says Mr Flynn. For strangers who take up the suggestion, an initial stroll around the city centre would not draw attention to many obvious problems.

Recent years have seen a successful, visually striking regeneration of the city's riverside. Elton Square, Newcastle's big 1970s retail complex, holds its own against competition from the nearby Metrocentre at Gateshead.

In the historic central area of Grainger Town the distinctive facades of Grey Street - once described by the late Sir Nikolaus Pevsner, the architectural authority, as the finest street in England - remain largely intact. But it is behind Grainger Town's outward architectural splendour that many of the problems Newcastle is seeking to

address are to be found.

In the 20 years between 1820 and 1840 the builder Richard Grainger transformed the heart of Newcastle into the graceful central area now named after him. Such is Grainger's legacy that around half the buildings in the 90-acre district are listed - 60 of them Grade One.

But, in recent years, the departure of retail and commercial activities to other parts of the city has led to a growing number of Grainger Town's buildings becoming abandoned and dilapidated. Around 1m sq ft of floor-space in the district is now unoccupied, with much requiring substantial restoration.

Agreement on a five-year, £120m regeneration programme co-ordinated by the Grainger Town Partnership, a public-private sector body with 18 directors, now signals the start of a co-ordinated drive to revive the area's fortunes for the next 10 years.

More than 100,000 sq ft of

new, high quality retail space is due to open in Grainger Town by Christmas on the site of a former department store. There are proposals to raise the area's 1,200 resident population to more than 3,000 - Grainger Town has the most ambitious living-over-the-shops plans in the country. The quality of public spaces will be improved, the potential for encouraging new business start-ups in the city

centre exploited, and catering and leisure facilities enhanced.

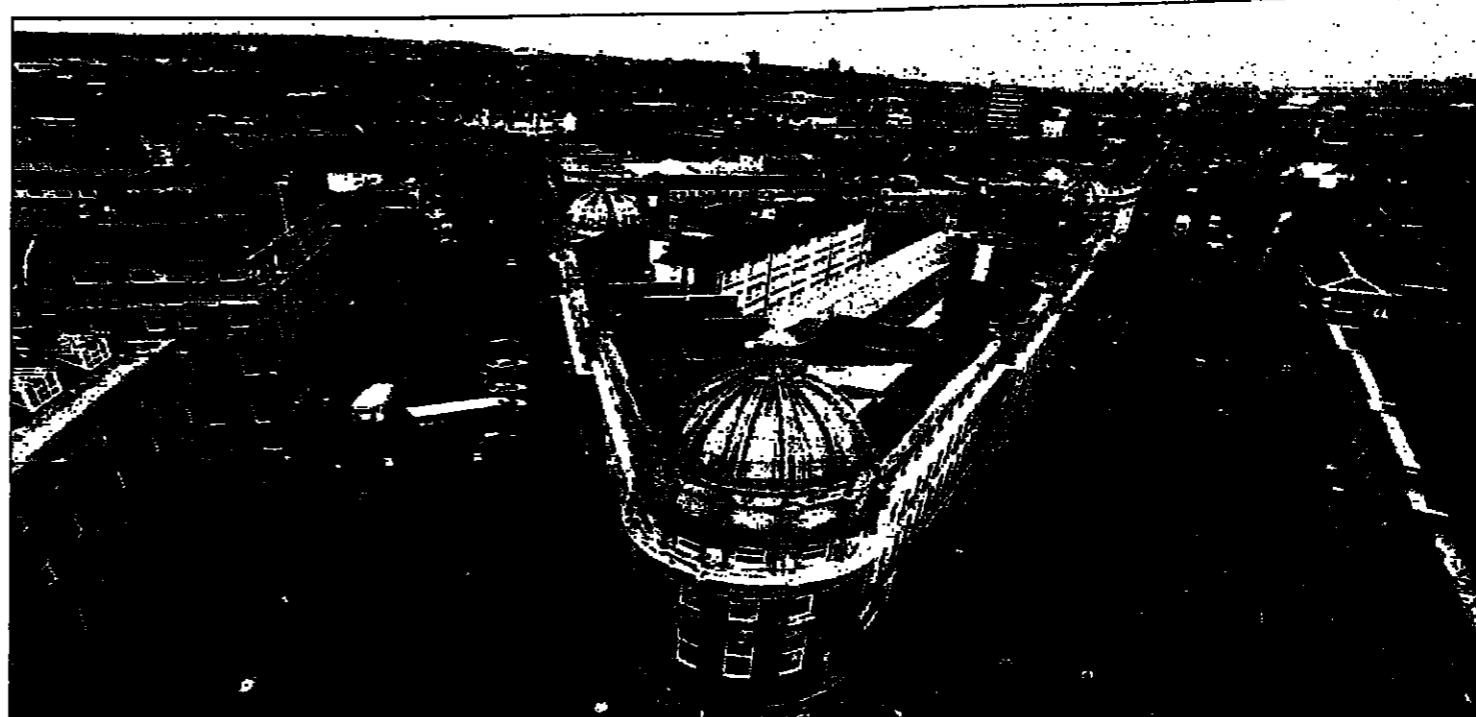
Grainger Town and its immediate surrounding area house Newcastle's Theatre Royal, the Tyne Theatre and Opera House and institutions including galleries, museums and Newcastle Cathedral, making the arts and tourism a central part of the regeneration strategy.

"After a long period when

the emphasis has been on construction-led regeneration, the focus is shifting to an appreciation of the benefits of reviving established parts of city centres," says Chris Oldershaw, chief executive of Grainger Town Partnership. "Things are moving in our favour."

Grainger Town's recent problems have included losing commercial tenants to the nearby Quayside development on the banks of the

river, should be regarded as a new street on the edge of Grainger Town. The splendid facades of Grainger Town offer their own unique potential to attract tenants, provided we are able to develop modern office facilities behind them. Revival of historic town centres cannot work if requirements to retain every item of original interior detail means we are unable to create accommodation that today's businesses want."



Behind the architectural splendour of Grainger Town are many of the problems Newcastle is attempting to address

Photo: North News

EDINBURGH and GLASGOW

Scots aim to regain competitive edge

The Scottish capital is striving to provide a cleaner and more friendly appearance for tourists, writes James Buxton

You might think a city such as Edinburgh, blessed with a superb natural setting and magnificent townscapes, would not need to do much more to make itself appealing.

In reality, the need to improve the city centre both for residents and visitors has been a priority for nearly 10 years. Now a new phase in the process is about to begin.

In the late 1980s civic leaders in Edinburgh started to realise that it was losing its edge in the competition with other UK cities to attract tourists. A study commissioned by the Scottish Development Agency found that tourists were distinctly underwhelmed by the city.

The study eventually triggered improvements, implemented by the city council and Lothian and Edinburgh Enterprise (LEEL), the local enterprise company. Through traffic was progressively reduced along the High Street, or the Royal Mile. Cobbled paving was replaced to make walking easier, and the Old Town has become a far more pleasant place to visit and walk through.

Now the process of improving Edinburgh's centre is poised to move forward again. Though no one will admit it, many people in Edinburgh were stung last year by an article in *The Scotsman* by Andrew Neil, its editor-in-chief, in which he lambasted the city authorities for allowing the centre to be scruffy and sullen with litter and used syringes, and for tolerating beggars, even in Princes Street, the main shopping street.

It is too early to say that a concerted clean-up has begun, but things are changing. In the next few weeks

sentence with the word "right", which is confusing when it comes after they've said left or right." More than 80 per cent of city centre representatives in Glasgow go on to full-time jobs.

On the physical side, Donald Dewar, the government's Scottish secretary, recently gave Glasgow £25m over five years to improve the main shopping streets in the centre. Some of this alone will be spent on giving Buchanan Street a facelift.

Back in Edinburgh, Richard Flynn, the manager of Boots the Chemist in Princes Street, has been seconded from the stores group to study improvements in the way the city centre operates. Working on behalf of a steering group comprising the council, LEEL, the chamber of commerce and other bodies, he is consulting businesses and other organisations about what they want the city centre to be like and whether they would contribute towards improving it.

In physical terms the biggest initiative is the strategy for the First New Town, the grid of Georgian streets and squares to the north of the Old Town. The 10-year strategy sees the First New Town as playing a "diverse set of roles", including business, quality retailing, tourism and residential - much as it does now.

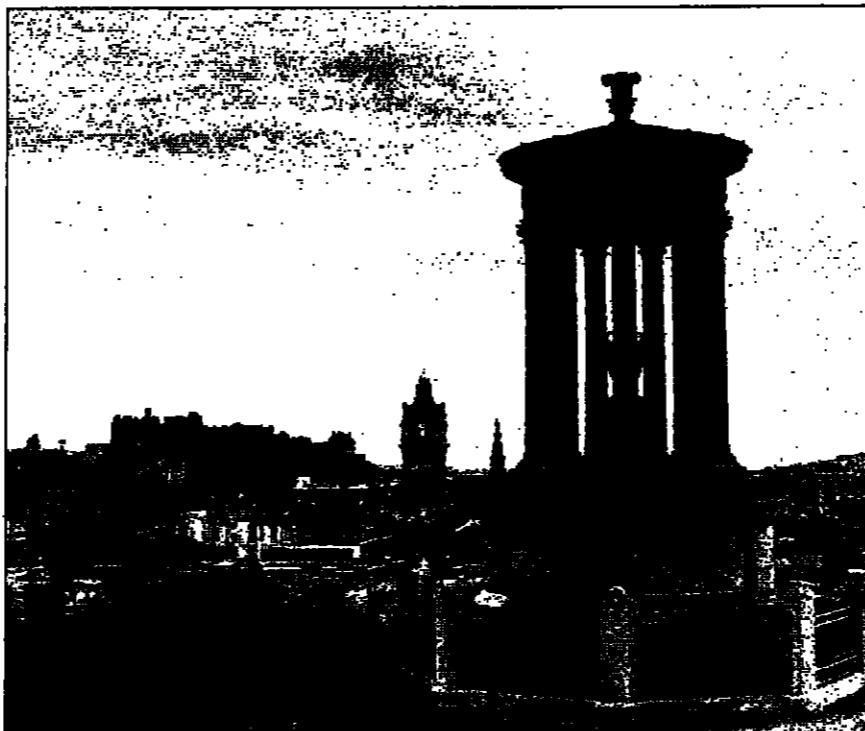
Margaret McNeil, of LEEL, admits there is only a small amount the authorities can do to steer businesses in the direction indicated by the strategy. She says the most obvious way they can intervene is by improving the public spaces to create a good environment for the type of development they want.

The most controversial proposal is to close sections of George Street and Frederick Street to traffic and parking. George Street is a wide thoroughfare lined with shops, bars and offices. Closing parts of it to cars would create a calmer environment and create acres of space for pedestrians, allowing bars and restaurants to spill out onto the street.

But it is also one of the commercial hearts of Edinburgh, thick with traffic and parked cars. "The danger," says McNeil, "is that if you take away the cars it becomes dead - we'd be looking to avoid that."

She also wonders whether clearing the streets of traffic is sensible for cold wet winter days when people on the streets are scarce. Any closure might only be imposed at certain times of the year.

Mindful of the pitfalls and potential damage to some companies' business, LEEL and the council are consulting widely on their plans for the New Town. The tide of a new body recently set up for this purpose says it all: Forum for Urban Living.



Edinburgh, seen from Carlton Hill

NORWICH

Shopping for a new identity and prosperity

Efforts to revive an historic city centre are proving a spectacular success story, writes Brian Groom

Can an historic city shop its way to prosperity and regeneration? Norwich is the test.

Some £500m worth of developments are planned or under way in Britain's largest medieval walled centre. One-third is a private finance initiative hospital on the outskirts but the rest are mixed shopping, housing, leisure and commercial schemes.

The retail strategy at the heart of it, commanded by a Commons select committee, has delivered spectacular results. Two years ago Experian, retail analysts, ranked it 49th among Britain's shopping locations. Now it is 10th.

A Hillier Parker survey shows a similar climb from 42nd to 18th, and prime shop frontage rents of up to £170 a square foot are among the highest in the country.

Norwich is often mistaken for a market town. In fact, it is a regional shopping centre comparable to Sheffield, Leeds or Cardiff.

"We attract retailers who don't normally go out to the sticks," says Mike Loveday, the city's head of planning. Virgin Vie, the cosmetics venture, has opened its fifth British store in the city and there are fashion stores such as Gap and Kookai.

A decade ago, when the city took stock of its position, the picture was bleaker. There had been little development since the 1960s and Norwich was losing trade to Peterborough and Cambridge.

As part of the route back to its former status, the city has embarked on one of the largest pedestrianisation schemes of any city.

Its flagship was the £130m Castle Mall shopping centre, completed by Friends Provident in 1993, which involved digging a hole in the hillside next to the castle, building a five-storey tower and putting a four-acre park on top.

It was awarded the accolade of Britain's best shopping centre by the British Council of Shopping Centres; 12m people visit it every year.

The city needed more to complete its recovery. Norwich received a serious blow in the recession of the early 1990s with the loss of 10,000 jobs, including a Nestle factory closure and cutbacks by Norwich Union, the dominant employer. The government saw it needed help.

Now Norwich has a £10.7m single regeneration budget scheme to revive the south-eastern area and a £3.7m capital challenge initiative to restore the fabric of the city centre.

A further £750,000 comes from English Heritage to conserve historic buildings, and the city and county councils apply annually for government funds to improve the transport infrastructure.

Developments are under way to revive many parts of the city, the biggest being a £75m scheme just begun by Gazeley and Railtrack on a 42-acre site by the river Wensum where the R101 airship was built.

It will have a Morrison's supermarket, 14-screen UCI cinema, swimming pool, housing and other commercial development. "It will open up the river frontage and divert traffic from the riverside," says Peter Gomersall, Gazeley's development director.

Linking it to the main shopping centre will be a £45m scheme by Specialist Shops in the King Street area, including housing, restaurants, fashion stores and a costume museum.

Another £60m plan to develop the former Nestle factory with shops, houses and a hotel is under discussion.

On top of that Norwich has one of the Millennium Commission's 14 landmark projects, a £60m high-technology library, business centre and heritage centre.

A film plan backed by the Heritage Lottery Fund to refurbish the 11th century castle will create a "Tate in East Anglia", a showcase for exhibitions from the London gallery.

A measure of success is the number of people returning to the city centre. Norwich had 80,000 living within its walls in 1990 but the number had shrunk to 2,000 by 1996.

Now it is back up to 10,000, with potential for up to 20,000 as old buildings such as breweries and shoe factories are converted for residential use.

"We can't be complacent, though," says Mr Loveday. Norwich still has large pockets of deprivation. Competitors are not standing still and a recession which hit consumer spending could leave it vulnerable.

The private sector and city council are joining forces to appoint a city centre manager to meet the threat from developments on the fringes of the urban area, other cities and even the Lakeside and Bluewater retail complexes on the Thames.

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Call centres

IRELAND

Keeping staff is a big problem

A thriving sector in the Republic may provide opportunities north of the border, says John Murray Brown

"It's Ireland's growth rate that is the real problem," says Oliver Wigdahl, manager of American Airlines, one of the first airlines lured to Dublin where it now has its European reservation centre.

With the Irish economy growing at 8 per cent, keeping staff has become a big worry for call centres, a business with notoriously rapid rate of employee turnover.

"Working in a call centre is not a career. Our concern is not in losing staff to the competition but to other job opportunities in the economy," says Mr Wigdahl.

The Dublin government is aware of the problems. In one of its first moves on taking office last June, Michael Martin, the education minister, announced the creation of 700 new university places

for teleservices courses.

Last month, Mary Harney, the deputy prime minister, announced a further 700 new jobs at Barclaycard and the Lotus Group - both UK concerns - and Sottbank Corporation from Japan. She predicted "this dynamic sector is well ahead of target to create over 10,000 jobs within the next two years".

But CSR, a Dublin recruitment consultancy, recently reported that more than half of the Irish-based companies surveyed were having difficulties filling their places.

"This is a good news, bad news story for us," says Mr Wigdahl. "There are plenty of graduates, but they have higher aspirations, therefore it leads to attrition problems. But I think we are frank at the interview, tell them it's not the world's most attractive job, and

warn them they're not going to get the glamour of an airline."

At Radisson Hotels, Jennifer McWade runs an operation making bookings for the group's 38 European and Middle Eastern hotels. Her office in a specially-built business park in residential south Dublin comprises 22 incoming telephone lines - all freephones - operated by 25 staff speaking 11 different languages.

The operation handles 1,000 calls a day from 7am to 7pm, when the service switches to operators in the US.

Radisson is typical of a number of Irish call centres where two-thirds of its staff are non-Irish.

A recent conference organised by the Irish Communications Workers asked whether the industry presented an opportunity for "social progress or the sweatshop", echoing the reservations of many economists about the benefits of such investments.

For the companies themselves, the advantages are obvious. The IDA highlighted the low wages as well as telecom costs and property costs for companies setting up in Ireland. A low 10 per cent corporation tax is also available.

American Airlines estimates labour costs are half those in Switzerland - with labour accounting for 45 per cent of total costs. Companies considering pooling their activities also have to consider the cost of closing the existing operations and relocating key personnel. The cost of severance pay that could have been involved in closing the operations in Italy and Spain persuaded the company to keep the two centres open.

Denis Molumby, head of call centres promotion at the government-run Industrial Development Agency, says the improvement in telecommunications infrastructure - one of the legacies of Albert Reynolds' time as communications minister in the 1990s - has been vital. The development has coincided with the falling cost of international telecommunications, with Telecom Eireann establishing freefone services across Europe.



American Airlines runs its European reservations from Dublin

1,000 jobs in the sector.

British Telecom has created 750 jobs at a Belfast call centre, in an investment worth £50m. BT has four other call centres across Northern Ireland, and is working with the government jointly to promote the province as a call centre location.

BT claims its telecommunications rates are lower than those in the Irish Republic. Northern Ireland, so the BT brochure says, has the highest level of computer education in the UK.

Prudential, the pensions and life assurance group, has a telephone-based payments operation, and National Australia Bank has a UK-wide factoring operation in the province. In Londonderry, Stream International, a merger between Corporate Software and RR Donnelly of Chicago, provides on-line software support for corporate clients employing 200 people.

Such is the confidence of the government-run Industrial Development Board that it has invested in a customised call centre - the first speculative property venture ever undertaken by the government investment authority.

DEVELOPMENTS

Consolidation is growing trend

Jola Shillingford reports on how companies are progressing in the chase for more efficiency and cost savings

Call centres are growing in size as well as in number. While some companies are consolidating 20 or 30 small centres into one or two large ones, others are linking existing facilities to form large "virtual call" centres.

Bob Scott, director of electronic commerce at Cap Gemini, the European computer services company, says "consolidating call centres is a growing trend". For example, Cable & Wireless Communications - which was formed from the merger of four companies - plans to reduce its call centres to three.

"Companies can save money by consolidating staff into one or two buildings," says Cynthia Ngwe, of Datamonitor. "If two call centres with 20 and 30 staff are combined, the larger centre will be able to manage the same workload with 40 staff. It will also be easier for the larger centre to handle peaks in call volumes."

For example, "when Scottish Power closed seven regional offices and opened one in Cathcart, near Glasgow, it made cost savings," says Ian Valentine, GT-X product manager at Edinburgh-based Graham Technology.

But there are limits to physical consolidation. "Finding a building of the right size for 100 workers with sufficient parking isn't always easy," adds Ms Ngwe.

"And the success of call centres in areas such as Leeds and Chester can make it difficult to find and retain staff because there is competition for educated workers."

Some call centres are even larger, with 1,000 staff or more. "These can be difficult to manage," says Ms Ngwe. "Because there are typically three staff working shifts for every agent position."

A large building may also be expensive to run overnight for companies offering 24-hour services," says Mr Valentine. "Do companies really want to pay for all the building services when there is only a skeleton staff inside? They may find it easier to run the overnight service from a smaller office."

Rodney Craig, of International Business Machines (IBM), says several factors are driving demand for larger call centres. "First, the globalisation of brand images is making customers want consistent service whether they phone a call centre in New York, Birmingham or London. Consistency is easier to achieve in a larger or distributed call centre."

Moreover off-the-shelf software from IBM and others is becoming available that enables small call centres to be set up straight out of the box, and therefore with even lower set-up costs. Mr Bradshaw says whether companies decide to consolidate into one or two larger centres or set up virtual centres partly depends on their circumstances. If a company has unused office space in a number of buildings around the country, it may well want to use this rather than pay for a large new call centre.



DAVID JONES, MANAGING DIRECTOR, INFORMATION SYSTEMS, SCOTTISHPOWER.

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Opinion



Karen Yeomans: she has to make an impact with a budget of just £1m and a staff of a dozen

VIEWPOINT • BY BRIAN GROOM

Crossed lines between City and regions



Many of the smaller listed companies fail to show up on the radar screens of institutions driven by sectoral analysis

Brian Woods-Scawen, Midlands chairman of accountants Coopers & Lybrand, made his controversial argument forcefully: many companies in his region believed they were being held back by the City of London. Institutions and fund managers failed to take the time and effort to understand company strategies, and in doing so they missed investment opportunities.

"They do not have enough insights to add value to the relationship and most of all they don't say what they think," he said. "Too often, if investors are dissatisfied, they speak in a coded language which is hard to translate. As a result, management is not fully aware of what the investors are saying."

The City was driven too much by sectoral analysis, charts and analytical tools. It missed the growth potential of smaller companies. "Over 100 PIs in the Midlands are capitalised at less than £100m and are therefore below the radar screens of many institutions."

She hopes to put energy into retaining companies already there. "We are losing companies out of the south-east, in some ways through cost - property, labour and planning constraints which operate in the south-east."

The agency will have no job creation target for its first full year but is expected to generate 315 enquiries, compared with 161 in 1996-97, 50 company visits and 18 successes.

Visits have already increased. "The government office for the south-east previously did about six in six months. We have done 24 in five months."

Biggest sources of investment are the US and Canada, followed by France and Germany.

Among obstacles are a lack of business parks and new office developments in neglected areas. Ms Yeomans wants to talk to local economic partners about ways of stimulating special development, or "fast-tracking" planning applications.

The transport infrastructure, though in many ways the region's main selling point led by Heathrow and Gatwick airports, is another topic she hopes the RDA will address.

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This ties in to the danger of complacency. While some south-east towns have very low unemployment - in Newbury, Berkshire, it is 1.1 per cent - it is not that long since rates of 8, 9 or 10 per cent were seen in normally prosperous places.

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